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**STRUCTURE, PROBLEMS AND PERSPECTIVES
OF THE A
ATHENS STOCK EXCHANGE (ASE)**

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1. THE LONG LASTING MISPLACED ROLE OF THE ASE

The Athens Stock Exchange (A.S.E.) was established in 1876, as a self-regulated public institution, supervised by the Ministry of National Economy. Despite the long history of the ASE, its role towards the growth of the Greek economy, was misplaced due to many reasons. The most important of them in our opinion were the following:

- dividend yields were very low, compared with the rates of interest of bank deposits and bonds. That was due to the oppressive taxation policy of the governments, or the tight dividend policy and very often the poor results of the firms. Therefore the wide public was not encouraged to approach the stock exchange;
- the existence of exchange restrictions for many years, discouraged the foreign investors;
- commercial and investment banks were restricted by themselves in giving long-term loans instead of launching new kinds of services like underwriting. This practice led the firms to a deterioration of the leverage ratios;
- the compulsory blocking of a certain percentage of deposits, for the financing of public enterprises with low rates of interest. In this way the state used cheap available funds instead of proceeding to privatisations;
- the delay of the various governments in introducing a modern institutional framework with transparency in the function of brokerage firms. This lack of transparency combined with the lack of fundamental knowledge about the function of the A.S.E. and the evaluation of shares, made the wide public hesitate to approach the stock exchange;
- the delay in a substantial involvement of the institutional investors;

Although Mutual Funds and Portfolio Investment Companies were enacted in 1970, they started playing an important role, only by the end of 80's. Even now Pension Funds refrain

from investing in the stock exchange due to the lack of the relative legislative regulation;

- the impulsive character of the Greek people, led many times to an unjustified rise or fall of the general index, and consequently to the disappointment of potential investors;
- the lack of political stability for long periods of time, combined with the lack of consistency and continuity in the exercised economic policy. Very frequent changes of governments and ministers, and very frequent changes in the institutional framework of the A.S.E. were not the best conditions for the smooth functioning of the stock exchange;
- finally the family character of a big number of firms, averted them from being interested in enlistment in the A.S.E., because of the fear of inability for the effective management of a bigger firm.

2. THE CURRENT DEVELOPMENTS IN THE ASE

As many of the above mentioned reasons ceased to exist or at least don't continue to exist in the same extent during the last few years, we have seen a blooming of the A.S.E. The blooming was due mainly to the involvement of thousands of small investors. This involvement is attributed to the significant fall in the rates of interest, the "discounted" perspective for the country's admission in the Economic and Monetary Union, the overall improvement in terms of macroeconomics and to factors which can be interpreted by psychology and sociology.

Although such involvement is welcome, it created many problems, because it took place very rapidly. The vast majority of the new investors were not familiar with the philosophy of the stock exchange and therefore their enthusiasm – as the general index was increasing – led them to an irrational behaviour, as the new investors were buying "any share at any price".

In September 1999 the general index of the ASE reached the record level of 6.355 points compared with 933 points in 1996, 1480 points in 1997 and 2737 points in 1998.

What followed was a dramatic fall of prices below 5.000 points (March-April 2000). This fall created the so called "trapped investors" who bought shares at very high prices and they were not able to get rid of them.

The fall started in September 1999 when the general director of the central bank of Greece gave an interview, warning the investors that many share prices were extremely high. This warning and the statements made by various politicians were taken into account very seriously by the investors and led them to massive sales.

Although we agree with the warning of the general director of the Bank of Greece and we believe that it led to more reasonable price levels, it is doubted if the timing of the warning was the appropriate one. If these statements were made earlier they could anticipate many losses of the "trapped investors". In capital markets like the Greek one, which are not mature enough, we believe that some kind of intervention is necessary in order to protect the big number of unexperienced investors.

In order to have a more clear picture of the A.S.E. we quote some ratios and we compare them with the respective ratios in other stock exchanges.

At the end of 1999 the A.S.E. was considered an overvaluated stock exchange (the situation was even worse in September 1999 as we mentioned above). The average P/E was 54,47 compared with 26,5 in Germany, 24,5 in Britain, 14,4 in Brazil and 30 in U.S.A.

Another evidence of overvaluation was that the P/BV ratio was 9,44 compared with 3,7 in Germany and Britain, 1 in Brazil and 5,6 in U.S.A.

The dividend yield in the ASE was 0,54%, when it was 2% in Germany, 2,4% in Britain, 3,5% in Brazil and 1,2% in U.S.A.

The market capitalisation /GNP ratio was also very high for the A.S.E. It reached 176% when it was 45% in Germany, 164% in Britain, 20% in Brazil and 181% in U.S.A.

In order to have a better understanding of the recent crisis in the ASE we need to know some more details. In December 1999 there were 294 companies enlisted in the ASE, compared with 264 companies in Milan, 233 companies in Amsterdam, 127 in Lisbon and 96 in Vienna. (Source: FESE/VIMA 27-2-00). In the same time another 180 companies are waiting in the queue for enlistment in the main or the parallel market. To some extent these big numbers constitute evidence of the lack of mergers and acquisitions in the Greek economy. In the same time the need for higher listing requirements becomes obvious.

The huge increase of the capital raised by listed companies and by new listing, combined with the split of the existing shares, led to an incredibly big number of shares in the A.S.E.

It is estimated that the number of shares in the A.S.E. has been increased by 140% in 1999, compared with an average 26% increase in the stock exchanges of the European Union.¹

To some extent the current crisis (April 2000) with the dramatic fall of the prices of shares, is attributed to the plethora of shares, combined with the excessive absorption of funds available for investment in the A.S.E.

Serious problems have arisen from the very rapid increase in the numbers of ELDE (companies dealing with receiving orders from the public and transferring them to the brokerage firms). The very low requirements in terms of capital and mainly in terms of the qualifications of the people involved, resulted in a situation where non-specialists act as consultants of the public, although they are not allowed to do it, by law. More than 1000 ELDE operate throughout the country (there were about 50 in 1997 and 250 in 1998²). The role of these companies was obvious in both the unexpected rapid rise and the fall of the composite share price index.

¹ T. Tsiros *Economia – Kyriakatiki Eleftherotypia*, 12/3/2000, p.14.

² Capital Market Commission, Annual Report 1998, p.35.

3. THE MODERN STRUCTURE OF THE ASE

Since 1995 the A.S.E has been transformed into a joint stock company supervised by the Ministry of National Economy. Shareholders of this company are the Greek state (60,3%), the Banks (22,7%), the listed companies (5,5%), the A.S.E members (3,1%), the pension funds (3%), the Mutual funds (2,4%), the Insurance companies (1.6%), the Portfolio Investment Companies (1,4%).

The ASE is administered by the Board of Directors which is appointed for a three year period. It is responsible for all issues regarding the administration of the stock exchange, the management of its property and the pursuit of its objectives. It represents the stock exchange judicially and extra judicially, and sees to the proper performance of the exchange's operations. The Board of Directors provides authorisation to investment firms to trade in the A.S.E and grants them membership to the market.

The composition of the Board ensures the participation of all market participants in the decision making process.

There are two supervisory bodies: the Capital Markets Commission (C.M.C.) and the Government Supervisor.

The Capital Markets Commission is an independent public entity, operating under the auspices of the Ministry of National Economy. It is the body, primary responsible to ensure investors' protection and the compliance of all market participants with stock exchange legislation.

The responsibilities of the Capital Markets Commission are summarised as follows:

- approves prospectuses for the listing of companies on the A.S.E.;
- temporarily suspends trading or decides for the delisting of listed shares in cases of violation of the stock exchange legislation;
- authorises investment firms;
- audits investment firms, mutual funds, portfolio investment companies and members of the A.S.E.;

- advises the Minister of National Economy on capital marker issues;
- imposes all sanctions and disciplinary penalties, anticipated by legislation.

C.M.C. consists of a seven members Board of Directors and a three members' Executive Committee. The majority of the members is appointed by the government but market participants are also represented.

The Government Supervisor is appointed by the Ministry of National Economy. He sees to the compliance of all trading parties with the existing rules and regulations. He is always present in the trading sessions.

Investors' protection is ensured by the daily surveillance of transactions by the Ministry of National Economy. A.S.E. member firms are not allowed to trade without the consent of their customers. By decision of the Capital Markets Commission, the value of all daily trades conducted by the members of the A.S.E., which exceeds the value of their net equity must be covered by bank guarantees, additional capital or the shares themselves which were traded. When the value of total daily trades exceeds by two times the net equity of the member firm, and no additional guarantees have been provided, access to the electronic trading system is refused to that member firm.

The transparency of the market is enhanced mainly by the following provisions:

- immediate disclosure by the listed companies of all price sensitive information related to their shares;
- disclosure within 5 days by the investors of any changes in their participation in a listed company which result in the crossing of the threshold of 10%, 20%, 1\3, 50%, or 2\3 of the total voting rights in this company;
- sanctions against the ASE members who use illegal or misleading means in order to influence stock prices, as well as to those who disseminate misleading information;

- natural persons are not allowed to participate both to the Board of directors of a listed company and to the Board of a member firm.

Two compensation funds exist in the Greek capital market for the protection of investors: The ASE members Guarantee Fund and the Supplementary Fund.

The first provides guarantees against stock exchange trades. Every ASE member must deposit a specific amount to the Fund prior to the commencement of its operations.

The second Fund's objective is to prevent delays in the settlement process, when there are unsettled trades.

4. LISTING REQUIREMENTS FOR THE MAIN AND THE PARALLEL MARKETS

Companies interested in listing their shares in the main market of the ASE, have to comply with the following conditions:

- they have to operate under the legal form of a joint stock company with a net equity of at least 2 billion GRD;
- they must have published annual accounts audited by certified auditors, for the last 3 years preceding the listing application. The accounts must demonstrate satisfactory operating profits as well as an overall satisfactory financial structure;
- at least 25% of the total shares have to be distributed to at least 2000 investors;
- they have to issue a prospectus prior to the public offering. This prospectus must be approved by the Capital Markets Commission;
- they have to hire an underwriter (one or more banks and/or brokerage firms having a minimum share capital of 1 billion GRD) who will handle the issue and buy the shares not absorbed by the public.

Companies interested in listing their shares in the parallel market of the A.S.E. have to comply with the following conditions:

- they have to operate under the legal form of a joins stock company with a net equity of at least 500million GRD;
- they must have published annual accounts audited by certified auditors, for the last 3 years preceding the listing application. The accounts must demonstrate satisfactory operating profits and an overall satisfactory financial structure;
- the profits of the last accounting period have to be so high as to be enough for a dividend at least as much as 6% on the share's price;
- decision for the listing of the shares in the parallel market, is taken with an increased majority of the 3/5 of the members of the Board of directors of the ASE. Of course the approval of the Capital Markets Commission is also required;
- as in the case of the main market, the issuing companies need to issue a prospectus and hire an underwriter.

A company can be transferred from the parallel to the main market of the ASE if the following conditions are fulfilled:

- the company's shares should have been trading in the Parallel market for at least 2 years after its admission therein;
- the company must have realized satisfactory operating profits during its period of trading in the Parallel market and should have exhibited an overall good profile towards the Stock Exchange and the investors;
- the company's shares must have efficient marketability and dispersion;
- there should be statements revealing that the company has used in the best possible way the capital raised in the parallel market through the initial public offering.

Following the recommendation of the ASE Board of Directors, the Capital Market Commission will take the final decision.

5. PERSPECTIVES OF THE A.S.E.

Although the P/E of the A.S.E. is now one of the lowest in the Europe, and the PEG ratio is now even lower (due to the higher rate of growth of the profits per share), it is widely acceptable that the A.S.E. has a serious problem of reliability.

The wide range of share price fluctuations which have been taking place since August 1999, show that it will take some time for the ASE to be included in the mature markets.

On the other hand, there are certain factors which are expected to play a decisive role in the course of the A.S.E. The most important among them will be:

- greece's admission in the economic and monetary union;
- the further improvement of the macroeconomic environment (reduction of the rate of inflation and the rates of interest);
- the expected upgrading of the ASE in the mature capital markets by international investment houses;
- the expectation for significant improvement of the results of the enlisted companies;
- the commitments of the main shareholders and the taxation incentives given to small investors for holding shares for longer periods;
- the degree of stability in the international capital markets.

The presence of Institutional Investors in the A.S.E. is limited. As the Greek capital market was so far characterised as an emerging market, but now it is in a transitional period towards becoming a mature market, Institutional Investors which prefer emerging markets are leaving A.S.E., as they find higher returns in other Stock Exchanges.

On the other hand, Institutional Investors which prefer mature markets, have not come yet. They are waiting for more structural changes in the Greek economy, more privatizations, liberalisation of markets (for example, abolishment of the state monopoly in energy and telecommunications), more flexibility in the labour market and

possibly some small changes in the institutional framework of the ASE (for example: The recent introduction of concepts like margin account and market making, and the expected enrichment of the derivatives market with new services will contribute to the positive perspectives of the A.S.E.)

When there will be sufficient evidence that the Greek economy moves towards such a direction, it is expected that the interest for the Greek capital market will grow, and then small investors after a period of disappointment will start again being interested and contribute to the required liquidity.

Measures like the introduction of book building for the new listings and the underwriters' price guarantee for a short period after the new listings, are also expected to play a very important role in restoring the investors' confidence in the A.S.E.

Finally we consider the role of financial press, very important both in making the wide public more familiar with the philosophy of Stock Exchange, and avoiding the misinforming of all the parts who might be interested. The standardization in the calculation of the most important ratios is an example of the steps that have to be made towards a more objective and valid briefing in the frame of the rules of the journalistic ethical conduct.

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