



Several wrong, misleading and inaccurate information related to trade in Bosnalijek snares in 2012 and 2013 were reported in a 2016 the Center for Investigative Reporting in Sarajevo (CIN) article “Russians Improperly Parked in Bosnalijek”,

However, the Sarajevo Stock Exchange does not want to go into how Luxembourg-based Fund Haden financed its acquisition of Bosnalijek’s shares or whether it was connected to Russian legal entities mentioned in the article. We think that the relevant international, state and entity bodies and agencies are called upon to investigate such allegations. In the past, the advocates of both sides surrounding the takeover of Bosnalijeka made public announcements. The Sarajevo Stock Exchange did not pay mind to those differing opinions and would not let them influence our obligation to do our job professionally.

But, we do want to shed light on the allegations of improper trading practices and blatant factual inaccuracies and misleading information taken out of reports or lawsuits spread by certain interest groups. We would like to point out that such approach is risky since various criminal and justice investigations have been carried out against the current, as well as the former company’s management.

With regard to the situation related to Bosnalijek, the public has to be aware that this was a case of hostile takeover -- in other words of an attempt to buy out a certain amount of shares without the approval of the company’s management. Unlike in friendly takeovers when the company’s Board is familiar with and approves of the takeover, the management of a targeted company would try to fight against a hostile takeover which in this case happened. This would not have been an issue if those activities did not compromise the integrity of the stock exchange.

With the goal of putting things right and letting the public know what facts in CIN’s story were badly presented, SASE would like to cite some parts of the story with our take on them:

- 1) **"Haden bought blocks of Bosnalijek stock on the Sarajevo stock-exchange (SASE) following pre-arranged deals with the sellers that cut out other buyers. Traders held stock on behalf of Haden before releasing it at a pre-arranged time for a pre-arranged amount. This illegal activity is called stock parking in stock exchange parlance."**

- The blocks of shares, or the block transactions are instruments that SASE abandoned in 2008. To speak of "buying blocks of Bosnalijek" shares is thus wrong and groundless.

- **Following pre-arranged deals with the sellers that cut out other buyers:** those acquainted with stock exchange trading know that a transaction can be pre-arranged, but that there is no guaranty whatsoever that such a deal would eventually go through. Every stock exchange transaction is based on the buying and selling order that have to be listed. For example, if a transaction was concluded at a sale price of 14.00 KM (per share), then

first an investor would have to enter an order to buy stock at 14.00 KM and he would buy it at 14.00 KM. If another investor had entered an order to buy stock at 14.01 KM he would certainly buy the stock, thus causing the pre-arranged transaction to fail.

For this reason, it is a nonsense to speak about “other investors being left hanging” since any (other) investor who decided to enter a buying order at 14.01 KM could buy the said shares and thus spoil “the arranged transaction”.

- Parking: I don't get it -- since when are described activities called parking? Parking is (a manipulative) practice of selling shares to another party with the understanding that the original owner will buy them back after. This is done to reduce its position for deadline disclosure.

**2) "Using inside information and participating in transactions in which the price, the time of trading and the participants are pre-arranged – in other words, the stock is parked — represents improper trading practices prohibited by the Law on Security Markets in the Federation of Bosnia and Herzegovina (FBiH) and the rules of the Sarajevo Stock Exchange. Legal stock trading involves prices based on supply and demand of anonymous stock-exchange participants.”**

- “Participation in transactions in which the price, the time of entering orders and the participants in trading are known beforehand” or “parking” do not qualify as stock exchange manipulations under the law and it is wrong to call them illegal. The Law on Security Markets deals with improper trading practices in the articles 232 through 234:

**Article 232. – Market Manipulation**

- (1) It is forbidden to manipulate securities at the market.
- (2) It is forbidden to induce persons to deal in securities:
  - a) by making or publishing any statement, promise or forecast that he knows to be misleading, false or deceptive;
  - b) by misrepresenting and concealing all important information that an investor should know about the issuer and his securities.
- (3) No person shall publish or disseminate information that might affect either the price or the appearance of the volume of trading.

**Note: In the context of taking sides for one of the involved parties in conflict, that is, disseminating unsubstantiated claims, one should especially pay attention to section (3) of the previous article.**

**Article 233. – Creating a false appearance of closing a deal and improper orders**

In order to prevent market manipulation, it is prohibited:

- a) to the trade securities without an actual transfer of ownership, thus creating a false appearance of closed deal;
- b) to enter an order for the purchase or sale of a security on the basis of knowledge that another person has provided or will provide an order for the purchase or sale of the same security at the same or similar price -- to enter an order or orders for the purchase of such security with the knowledge that an order or orders of substantially the same size, at

substantially the same time, and at substantially the same price, for the sale of any such security, has been or will be entered by or for the same or different parties;

c) to enter an order for the purchase or sale of a security without an intention to carry it out so that the transactions related to these orders would change the best price or offered price for the security issued on the stock exchange or any other organized market; and

d) to place two or more orders for the purchase or sale of a security at a stock exchange or other organized market at the exact or nearly exact time and in the various amounts with the goal of testing the acceptability of the price or to influence the market price.

#### **Article 234. – Influencing the price of securities**

It is prohibited to carry out transactions of securities with the goal:

a) To enter an order with the purpose of raising the price of a security for the purpose of inducing the purchase or sale of such security by others;

b) A manipulative short sale of any security with the idea to get other investors to sell their shares.

c) for the purpose of creating a false appearance of active trading and in this way inducing other investors to purchase or sell stock.

The sole provision that makes a mention of prearranged transactions is in the article 233, section (1) clause b; however, here is prohibited to arrange transactions with **the goal of creating a false appearance of active trading or price.**

Stock exchange rules target the abuse of market in the article 143. Here, prearranged transactions are mentioned in section (3) clause b), in the context that is **prohibited to stop other traders from participating in transactions in order to carry out pre-arranged transactions.**”

- The legal way of trading shares is to form a price based on free supply and demand of the anonymous stock exchange traders. This is totally accurate, though it's not clear what's been understood under “the free supply and demand”. I would like to stress again that each and every transaction at the stock exchange is based on buying and selling orders, that is, supply and demand. As far as anonymity is concerned -- they are anonymous for the stock exchange as it does not have information about the identity of transactional parties – unlike the story's author who got precise information about the identity and transactions obviously from another source.

3) *"The arranged sale on Jan, 15, 2013, is one of the more suspect events during the takeover of the Sarajevo drug maker that lasted for 151 days.*

*During the intensive trading in Bosnalijek shares, the price did not change much, even though experience shows that higher demand usually drives up stock prices.*

*In the case of Bosnalijek, 14 KM per a share stayed the price over 59 days, including 37 days in a row. The FBiH Ministry of Energy, Mining and Industry officials wrote the Prosecutor's Office that Haden and its proxies had fixed the price of shares —*

***effectively bypassing the principles of free supply and demand on which the securities market is based."***

These statement shows again the lack of understanding of stock exchange trade, this time by the representatives of the FBiH Ministry of Energy, Industry and Mining. Based on the fact that Bosnalijek official price of 14.00 KM per a share did not change over 59 days, including 37 days in a row, they concluded that the price was fixed.

If a buyer of a big amount of shares was ready to pay 14.00 KM per a share and there were sellers ready to sell at that price on the market, why would the buyer need to increase the price on his own? Would this move be economically justified?

He would have a motive to enter a higher order in two cases only:

- if another buyer entered an order to sell above the current market or

- if sellers were no longer satisfied with the price of 14.00 KM and asked for more for their shares.

Other buyers were present and offered higher prices, but did not ask for high volume of stock -- if they bought shares, the situation would again "stabilized" at the price from the order of the first buyer. This is easily seen if one analyzes the type of transactions during the said period, in other words, the prices that the transactions fetched. Even though the share price on any day might be 14.00 KM, it does not mean that all transactions would be concluded at that price – the share price is a weighted mean of all the transactions of a respective share on a given day.

In other words, a so-called fixing of share price is first of all the result of the lack of (serious) competition for the respective shares, or the lack of cash at the local market.

***4) "Despite that, the SASE General Manager Tarik Kurbegović ordered no inspection of trading in Bosnalijek shares. He said events did not point to a manipulation in prices and other irregularities, nor was there suspicion that Haden had pre-arranged the buyout."***

***"They were buying for eight to nine months, which meant that they did not have someone who would sell it to them," the SASE manager told CIN."***

***Haden's admission of the arranged transaction in January 2013, as well as other evidence compiled by CIN, negate the SASE manager's statement."***

Another example that the story's writer does not understand how the stock exchange market operates and how stock exchange regulates itself, is to say that "SASE general manager Tarik Kurbegović ordered no compliance inspection ". The stock exchange has clearly established procedures for every facet of trading, including regular and emergency inspections. There have been no warning signs that would call for a surprise inspection of certain transactions and orders in the case of trading in Bosnalijek shares. The principles of stock exchange trading, including equal treatment of all parties, are in contravention with the idea that a general manager should order any inspections on his own.

Also, the stock exchange has a clearly defined authority with regard to its oversight which is only applicable to the stock exchange members and its professional mediators. The stock exchange, as a private company, has no authority over clients of the stock exchange members.

### **5) Allegations about “cash under the counter”**

We have already explained that a so-called fixing of prices is mainly the result of the lack of market liquidity. It is often said, including this article, that the difference between the real price and the listed has been paid “under the counter”.

With regard to this we want to point out that if this were true, than the Sarajevo Stock Exchange would be directly harmed since our fee, as well as fees of the most of the market participants, was based on the value of transactions. In this respect, every artificial decrease of the value of transactions would mean less profit for the stock exchanges. For this reason, we are very interested in these allegations finally being examined but by the authorized agencies and institutions, since the stock exchange has not authority over its clients, that is its members and is not authorized to investigate any of these activities.

### **Conclusion**

The Center for Investigative Reporting in Sarajevo has rightly been seen as a yardstick of fair, thorough and unbiased journalism. Stories and articles are as a rule very thoroughly reported, they have a logical structure and give readers an insight into current events. Hence, we were unpleasantly surprised by this article which has not been up to the standards that CIN has championed in the region.

Sarajevo Stock Exchange is one of the market institutions which operates within its prescribed authority. Examining possible activities that take place outside the stock exchange, including connections among potential investors which could influence the market trading, is under the purview of the state regulatory and law enforcement agencies, to which the Sarajevo Stock Exchange will give support within its capacities.