

- June 2006 -

**THE NEW SECURITIES ACT  
-REPUBLIC OF SERBIA-**

*(Zakon o tržištu hartija od vrednosti i drugih finansijskih instrumenata, Official Gazette of Republic of Serbia, n.47/06)*

The new Serbian Securities Act (hereinafter referred to as the “**Act**”) came into force on 10 June 2006, and will become applicable on 10 December 2006.

The reason for adoption of the new securities legislation was in the necessity of adapting legal framework to new circumstances and developments on the Serbian securities markets, such as advanced stage of privatization process, appearance of new financial instruments and growing role of institutional investors. The Act brings Serbian regulation in this area closer to the standards embodied in the EU Directives 2003/6, 2003/71 and 2004/109.

This Newsletter shall point out the main novelties introduced by the Act, in comparison to the existing Securities Act that was originally adopted in 2002 (*Zakon o tržištu hartija od vrednosti i drugih finansijskih instrumenata, Official Gazette of FR Yugoslavia n. 65/02 and Official Gazette of Republic of Serbia n. 57/03, 55/04, 45/05, 85/05 and 101/05*) (hereinafter referred to as the “**Existing Act**”).

❖ *Professional investors*

The list of professional investors is wider than in the Existing Act. Besides domestic financial institutions, it includes international organizations, such as IBRD, IDA, IFC, EBRD, as well as financial institutions from the OECD and EU countries, provided their status of professional investor is approved by the Securities Commission.

❖ *Share issues*

Whereas the Existing Act treats all incumbent issuers (companies that had issued shares prior to adoption of the Existing Act in 2002) as public companies, whether or not such companies had issued shares pursuant to public offers, the new Act provides that only companies that have undergone at least one successful primary offering are deemed public companies.

As a rule, securities may be issued only pursuant to a public offer. Any public offering is subject to the approval of the Securities Commission. There are, however, a number of exceptions to the public offer rule, such as: issuance to professional investors, state,

existing shareholders or employees; issuance in the process of privatization; debt-equity swap; and increase of capital out of reserves.

❖ *Trading*

The rule is that securities can only be traded at the stock exchange or over-the-counter organized market. The only exceptions to this rule, with respect to equity securities, are: acquisition pursuant to a takeover offer; forced execution sale; sale for the purpose of settling obligations in the course of corporate reorganization; and acquisition of shares of dissenting shareholders. Sale of securities owned by the state and state-related funds is also exempted from the obligation to trade at organized markets.

❖ *Qualified participation*

The threshold determining qualified participation, which triggers the application of various notification requirements, is decreased from 10% of issued voting shares (as provided under the Existing Act) to 5%.

❖ *Standard financial derivatives*

The Act defines and regulates futures and options as standard derivatives. Other types of financial instruments may also be offered to the public, provided they are determined as trading instruments by the market operator. Financial instruments may only be traded at the organized market.

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**CONTACT:**

Law Office KOJOVIĆ Advokati/Attorneys at Law  
Cara Dušana 48, SCG-11 000 Beograd  
Tel: (+381 11) 3033 747; Fax: (+381 11) 2628 669  
E-mail: [office@kojoviclaw.com](mailto:office@kojoviclaw.com)