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SERBIA: CAPITAL MARKETS

I AMENDMENTS TO THE OPERATING RULES OF THE CENTRAL SECURITIES REGISTER DEPOSITARY AND CLEARING HOUSE (Official Gazette of the Republic of Serbia No. 70/2008)

The amended Operating Rules of the Central Securities Register, Depository and Clearing House ("**Amended CSR Rules**") came into force on 30 July 2008. The amendments fill in some gaps in the former version of the CSR Rules, concerning the issuance of replacement securities, transfers from aggregate custody accounts and restrictions on DVP and DVD payments.

The Amended CSR Rules require the CSR to include information on pledges and other encumbrances imposed on shares (such as prohibitions on voting rights) in shareholder records.

A separate regulation, the amended Regulation on Conditions for Performance of Brokerage-Dealership issued by the Securities Commission (see Section III below) requires the issuer to notify the pledgor and pledgee of forthcoming replacement of pledged shares with new shares (e.g. in case of share splitting) and instructs them to inform the CRS on the steps they intend to make regarding the preservation of the pledge (e.g. signing of an annex to the pledge agreement).

These new provisions address the existing risk of automatic termination of an encumbrance upon annulment of existing shares and their replacement with new shares, because in that case the pledged asset ceases to exist and a new asset (replacement shares) come into existence.

However, both regulations stop short of providing a mechanism that would ensure automatic transfer of pledges or other encumbrances from annulled shares to replacement shares. Accordingly, creditors are still at risk of losing their security in the event of issuance of replacement shares.

Prior to the latest amendments, the CRS Rules lacked proper regulation for trading with the shares of closed joint-stock companies. The Amended CRS Rules now prescribe which documentation has to be submitted by the seller and the buyer of shares, via their respective brokers, in order to have the ownership transfer registered. The Amended CRS Rules also prescribe that shares of a closed joint - stock company can only be paid pursuant to the so-called DVP (Delivery Versus Payment) method. This practically means that shares of a closed joint-stock company cannot be paid for with other securities. The rules now exhaustively enumerate the instances in which DVD (Delivery versus Delivery) method is permitted: primary issue; acquisition of own shares pro rata or from dissenting shareholders, acquisition of shares pursuant to take-over bid procedure, and mandatory sale and purchase of the small shareholders' shares).

II
**AMENDMENTS TO THE REGULATION ON CONTENT AND FORM OF PROSPECTUS AND OTHER
DOCUMENTS REQUIRED FOR ISSUANCE OF SECURITIES**
(Official Gazette of the Republic of Serbia No. 71/2008)

These amendments, adopted by the Securities Commission, are effective as of 2 August 2008.

The relevant laws, i.e. the Law on Business Companies (*Official Gazette of the Republic of Serbia No.125/2004*) and the Law on the Market of Securities and Other Financial Instruments (*Official Gazette of the Republic of Serbia No.45/2006*) do not prescribe the threshold for a successful share issue. The amendments fill in this gap with respect to private placements only, by stipulating that the minimum threshold for a successful issue is 95 per cent of the private placement volume when the shares are issued to the Republic of Serbia, National Bank of Serbia or a professional investor and 50% of the volume when the shares are issued to existing shareholders.

III
**AMENDMENTS TO THE REGULATION ON CONDITIONS
FOR PERFORMANCE OF BROKERAGE-DEALERSHIP BUSINESS ACTIVITY**
(Official Gazette of the Republic of Serbia No. 71/2008)

The Securities Commission has also adopted the Amendments to the Regulation on Conditions for Performance of Brokerage-Dealership Business Activity, effective as of 2 August 2008.

The amendments simplify the procedure for appointment of members of management board in brokerage-dealership companies ("BDC") whose approval for a management board in the same or another BDC has already been issued by the Securities Commission. The BDC is no longer obliged to file for a new approval, but is only required to notify SEC on the appointment and to submit the relevant appointment decision.

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