Contingent Convertible Bonds (CoCo bonds) and their market development in Albania

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Abstract

Convertible Contingent Bonds are important financial instruments for the stability of the banking and financial system in general. The role of innovative financial instruments is crucial to help address the challenges posed by these critical situations. One of these reintroduced instruments with ambitions to enhance the stability of the banking sector is the "Contingent Convertible Bond," abbreviated as "CoCo."

This paper aims to explore the impact of the use of Convertible Contingent Bonds (CoCo) in financial crisis situations and their effect on avoiding the domino effect of a bank failure. Starting from the critical factor of the stability of the financial system, this analysis aims to shed light on the potential of these innovative instruments in improving the stability of the banking sector as well as the need for their modeling in the Albanian banking sector, considering the lack of treatment particular of these instruments in the current legislation. The analysis of the possibilities for their application in the Albanian banking system shows that, if implemented successfully, they can increase the regulatory capital of banks, strengthen financial stability and *reduce the risk of government intervention in cases of crises. In conclusion, the use of CoCo bonds in Albania should be accompanied by the improvement of legislation and the encouragement of financial institutions' investments in these instruments, to create a safer and more stable environment in the country's banking sector.*

Keywords: *Contingent Convertible Bonds (CoCo bonds), Basel III, resolution, financial crisis.*

Introduction

Financial shocks have been a persistent event in the global economic landscape, significantly impacting the stability of the financial system. In this context, the role of innovative financial instruments is crucial to help address the challenges posed by these critical situations. One of these reintroduced instruments with ambitions to enhance the stability of the banking sector is the "Contingent Convertible Bond," abbreviated as "CoCo." Contingent Convertible Bonds, also known as CoCo or CoCo bonds (Contingent Convertible bond), are hybrid debt securities that exhibit characteristics and features of both equity and debt. According to Basel III rules, these valuable papers are recognized as regulatory instruments under certain conditions. This complex instrument aims to serve as a regulator in times of financial crises. CoCos are issued as bonds and, in financial crises or bankruptcy risks, have the ability to convert immediately into shares (equity) or be written off (De Spiegeleer, Schoutens & Van Hulle, 2014). Thus, they display loss-absorption qualities, creating a cost advantage. The conversion of the CoCo bond occurs when the financial institution, specifically the bank, hits the minimum regulatory capital level. This conversion is accompanied by a devaluation or weakening of existing shares and shareholders. On the other hand, investors in these bonds, in the best-case scenario when their bond converts to equity, automatically become shareholders with voting rights (De (De Spiegeleer, Schoutens & Van Hulle, 2014). Meanwhile, the bank increases the likelihood of not defaulting, also enhancing its repayment ability, which would otherwise be very difficult or impossible in other circumstances.

Objectives, research questions and hypothesis

The objectives of this paper are the following:

1. Highlighting the positive effects brought about by the use of contingent convertible bonds.
2. Exploring how these types of bonds would function in Albania.

Research question:

"How would the utilization of CoCo bonds impact the financial market in Albania during a financial crisis"? This research project aims to examine the influence of employing CoCo bonds in the context of a financial crisis. To achieve this goal, we will explore a primary hypothesis:

Hypothesis:

"The use of Contingent Convertible Bonds in the Albanian banking sector contributes to better financial stability and protection against the impacts of financial crises".

This prediction is based on the belief that employing CoCo bonds can help enhance the resilience of banks in challenging financial situations. This positive impact may result from the capacity of these instruments to alter the capital structure of banks and automatically convert a portion into common equity in case of a specified capital loss.The research project aims to thoroughly explore this hypothesis and provide a better understanding of the impact of utilizing CoCo bonds in financial storm scenarios. By reviewing relevant literature and analyzing the situation in Albania, we aim to shed light on the potential of these instruments to improve the stability of the financial sector during difficult times.

Methodology

The analysis used in the methodology of this paper is a qualitative one. This analysis will employ a combination of relevant bibliography research and data analysis concerning Albania's regulations, extraordinary interventions, and public offerings. The analysis will evaluate how the use of CoCo bonds is linked to banks' responses to financial crises. The expected results may confirm the formulated hypotheses, demonstrating the positive impact of CoCo bonds on bank stability and their ability to mitigate the spread of the domino effect in case of bankruptcy. These results will contribute to the current discourse on financial crisis management and the role of innovative financial instruments in enhancing the resilience of the financial sector during challenging times. The qualitative analysis methodology in studying CoCo bonds will assist in a better understanding of the impacts and opinions of investors and provide a comprehensive perspective on this complex financial instrument.

Literature Review

Historical background

CoCo bonds, or contingent convertibles, combine debt and equity features by activating loss absorption mechanisms when a bank's capital falls below a certain threshold, preventing bankruptcy (Avdjiev et al., 2015; Bolton et al., 2012). Robert Merton conceptualized CoCo bonds in 1990 to provide investor guarantees during financial crises, influencing regulatory changes post-2008 financial crisis (Sundaresan et al., 2010; Pelger, 2012). Lloyds Banking Group (LBG) issued the first CoCo bonds in 2009, addressing challenges from its acquisition of Halifax Bank of Scotland, with subsequent issuances by Credit Suisse, UBS, Rabobank, and Allianz. CoCo bonds gained prominence in 2014 due to Basel III capital requirements but faced scrutiny after Banco Popular Espanol's case in 2017 (Basel III, 2014; Reuters, June 7, 2017).

Hybrid Instruments

Hybrid instruments blend equity and debt features, offering a predictable return with conversion options (Kimmel P., & Warfield T., 1995; Wiedermann-Ondrej, 2006). Hybrids are subordinated to traditional debt but rank above equity in insolvency (Liberadzki, K. & Liberadzki, M., 2016). Hybrid securities are favored for financial protection but can be challenging due to complexity (Johannesen, 2014). Convertible bonds allow conversion into equity, usually with lower coupon rates. They offer potential equity conversion, coupon payments, and tax advantages. Conversion occurs when profits from equity exceed face value and interest payments (Lewis & Verwijmeren, 2011). Convertible bonds benefit young companies with low coupons and tax deductibility. CoCos differ by converting to equity only when bank capital falls below a threshold.

Basel III Regulation

Basel regulations, starting with the 1988 Basel Accord, aimed to increase banks' capital to absorb losses and reduce risky behavior (Baily, Litan & Johnson 2008). The crisis revealed flaws in dealing with complex financial instruments and high bank leverage ratios (Admati & Hellwig, 2014; Koziol & Lawrenz, 2009). Basel III was introduced in the EU to improve loss absorption capacity and address financial vulnerabilities (Basel III, 2014). Lehman Brothers' bankruptcy in 2008 triggered a financial collapse and highlighted the inadequacy of capital standards, exacerbating the crisis (De Haas & Van Horen, 2012; BCBS, 2010b). Governments globally took unprecedented measures to stabilize the financial system, including providing liquidity and capital support, and established supervisory bodies like the European Banking Authority (EBA). Basel III, coordinated by the G20, increased capital requirements, introduced measures to mitigate leverage and liquidity risk, and aimed to improve the quality, consistency, and transparency of banking activities. It also sought to reduce procyclicality and prevent government bailouts (BIS, 2013; BIS, 2018).

Basel III includes the countercyclical capital buffer to curb credit extension during economic peaks and contingent convertibles as additional Tier 1 capital (BCBS, 2015). Basel III's primary objectives are to limit excessive bank risk-taking, bolster capital reserves, and enhance financial stability to prevent future financial collapses.

CoCo Structure and Design

CoCo Bonds function like regular bonds during prosperous economic periods for the issuing institution but convert into common equity when the capital ratio falls below a specified threshold (De Spiegeleer et al. 2014). This conversion aims to lower the bank's debt-equity ratio significantly, thus reducing the probability of the bank defaulting. Furthermore, upon conversion, the bank automatically recapitalizes, mitigating bankruptcy costs (De Spiegeleer et al. 2014). As a result, CoCo Bonds are widely regarded as a valuable regulatory tool for decreasing the likelihood of bank defaults, minimizing bankruptcy expenses, and internalizing the consequences of poor performance (Maes and Schoutens, 2012). These characteristics, coupled with high expectations, make CoCo Bonds and their structure both economically and politically intriguing for further examination (Maes and Schoutens, 2012).

Design

CoCo bond design significantly influences their intended objectives. Key design elements include the trigger event, threshold value, loss absorption nature, and bond volume (Avdjiev, Kartasheva & Bogdanova, 2013). The trigger event marks when the loss absorption mechanism activates, with one or more triggers possible. Decisions regarding trigger basis (book or market values) and the use of mechanical or supervisory authority-driven triggers are essential (Flannery, 2010).

Mechanical triggers activate when capital falls below a specified ratio of risk-weighted assets, triggering automatic conversion or write-down (Maes and Schoutens 2012). They are clear and observable but lack consideration of additional information (BCBS, 2015). In contrast, discretionary triggers rely on supervisory judgment of a financial institution's solvency prospects. They offer flexibility but may suffer from timing uncertainty and market signals (Pazarbasioglu et al., 2011). CoCo bonds can also employ a mix of trigger types, like a mechanical trigger based on specific bank assets coupled with a discretionary trigger considering broader financial system conditions (BCBS, 2015). In the EU, CoCos typically use accounting value triggers to align with prudential requirements, reflecting regulators' preference (Maes and Schoutens 2012; Glasserman & Nouri, 2012).

Purpose

CoCo bonds serve multiple purposes in the financial industry. They are issued by financial institutions to enhance their loss-absorbing capacity alongside CET1 Capital, allowing banks to bolster their ability to absorb losses before a financial downturn occurs, all while paying a lower market price for risk assumption and without diluting the control of the owners' rights during a crisis (Flannery, 2010).

CoCo bonds are recognized for their cost advantages compared to CET1 capital, helping prevent banks from restricting their lending activities (Pazarbasioglu et al., 2011). These cost advantages are attributed, among other factors, to the tax deductibility of coupon payments, especially in most European Union countries (Albul, Jaffee & Tchistyi, 2010).

Moreover, the conversion feature of CoCo bonds aims to provide financial institutions with additional CET1 capital when needed, helping to prevent deterioration in the bank's balance sheets (Pennacchi et al., 2011). The use of CoCo bonds is also intended to enhance supervision and risk management through a customized contractual structure.

The primary purpose of these hybrid instruments is to reduce the risk for individual banks and, consequently, for the entire banking system, lessening the need for government rescue measures at the expense of taxpayers and contributing to stabilizing the overall economy (Glasserman & Nouri, 2012).

Loss Absorption Mechanism

CoCo bonds have a crucial loss absorption mechanism determining conversion or write-down outcomes (Martynova & Perotti, 2016). The conversion rate in CoCo bonds is significant, representing the dilution of equity holders' claims and the CET1 capital CoCo bondholders receive (Pennacchi et al., 2011).Dilution involves a shift in control rights and profit/loss distribution, depending on fixed or variable conversion rates, but once conversion occurs, it's irreversible (Avdjiev et al., 2015). Significant dilution redistributes profit and loss claims to CoCo bondholders, possibly prompting original equity holders to avoid conversion by selling their bonds in advance, causing price declines (Albul, Jaffee & Tchistyi, 2010).CoCo bonds encourage better risk management and determining when substantial dilution is needed (Henkel & Kaal, 2012).

Regulatory perspective favors substantial dilution to incentivize responsible risk management (Johannesen, 2014). Principal write-down reduces bank debt via CoCo bonds but doesn't grant equity, with options for partial or full write-down specified in the contract. It motivates equity holders and bank management to take risks, leaving control and participation rights unaffected (Pennacchi et al., 2011).CoCo bonds with conversion mechanisms are generally preferred, but contract specifics on full or partial conversion/write-down and gradations are essential (Avdjiev, Kartasheva & Bogdanova, 2013).In European markets, around 49% of CoCo bonds feature principal write-down, likely influenced by bank equity holders' decision-making power (Admati & Hellwig, 2014; Albul, Jaffee & Tchistyi, 2010).

Advantages

CoCo bonds serve as effective instruments for financial market regulation, benefiting both issuers and bondholders. They shift the burden of risk-taking from taxpayers to bank owners and enhance bank stability (Goodhart & Taylor 2006; Pennacchi et al. 2016).The key difference from standard convertible bonds is the trigger mechanism, initially proposed as a single trigger but later studies suggested multiple triggers (Huertas 2009; Albul, Jaffee & Tchistyi 2010; Pennacchi 2011; Plosser 2010). CoCo bonds gained prominence after the financial crisis, addressing the need for a capital buffer and reducing the "too big to fail" problem (Blundell, Wignall & Roulet 2013).They offer a cost-effective way to recapitalize banks, replacing the bankruptcy process (Bolton & Samama 2012) and improving bank solvency under specific conditions. Effectiveness depends on managerial caution and supervisory autonomy, and CoCo bonds are seen as a useful instrument when capital needs and regulatory actions are inversely related (Hilscher and Raviv, 2014).In summary, CoCo bonds have the potential to enhance financial stability, although their impact may vary depending on circumstances (Flannery 2014).

Disadvantages

CoCo bonds, while praised for their potential to enhance financial stability, face skepticism and concerns in the financial literature. Critics argue that simpler solutions like increased equity may be more effective and that CoCo bonds' complexity can complicate financial systems. Concerns also revolve around the conversion mechanism's potential to spread economic distress and create incentives for risky behavior. Some worry that CoCo bonds may not completely avert bank failure and that their trigger mechanisms may be inefficient. Additionally, they could exacerbate bank weaknesses during crises, lead to destabilizing effects in markets, and generate negative externalities. Overall, CoCo bonds remain a topic of ongoing debate in the financial community.

Development of the CoCo Market in Albania

Regarding the Albanian legislation, contingent convertible bonds are financial instruments that have not received specific treatment in Albanian law. Not only for CoCos, but for many other financial instruments, Albanian legislation does not anticipate their treatment, as the economic development and the absence of a well-established securities market make them less of a priority. Consequently, since Albania does not have a well-established stock exchange, financial institutions such as banks will find it harder to issue contingent convertible bonds. This is because investors would be hesitant to risk their portfolios for value papers that have a higher probability of being written off than being converted into shares.

Resolution

The law on recovery resolution outlines how banks and investors should handle dematerialized bonds in cases of extraordinary intervention. The custodian plays a crucial role in this process and has the right not to pay the bonds until their issuer has fulfilled its obligations. The regulation requires custodians to inform their investors about the purchase and sale prices of dematerialized bonds in over-the-counter markets, including any commission or fee. This information is crucial for investors to make informed decisions regarding their bonds. The regulation also specifies the criteria and procedures for converting liabilities into capital for banks. This is an important tool for recapitalizing banks when needed to maintain financial stability. It sets the criteria and minimum requirements that banks must meet to ensure an adequate level of regulatory capital and accepted liabilities. This is a crucial aspect of bank supervision to mitigate financial risks. It sets the criteria and conditions that must be met to recognize financial instruments as accepted liabilities. This process ensures that the instruments banks use to fulfill their obligations are reliable and meet necessary standards. If banks meet the minimum requirements for regulatory capital and accepted liabilities using first-tier capital instruments, they can fulfill the macroprudential capital buffers.

The Resolution Authority (Bank of Albania) is responsible for developing and updating methodologies and policies related to meeting the minimum capital and accepted liability requirements. This ensures continuous updates and effective intervention by authorities in the banking sector. Overall, extraordinary intervention in Albanian banks is essential to ensure financial stability and protect the interests of investors and depositors. The defined regulations and procedures are the primary means to achieve these goals.

Minimum Requirements for Regulatory Capital Instruments and Accepted Liabilities

According to Regulation No. 78/2020 of the Bank of Albania, a minimum requirement for the levels of bank capital and accepted liabilities has been established. This requirement concerns the absorption of losses and the need for recapitalization. For banks that, according to the extraordinary intervention scenario, will not face mandatory liquidation, there is a value to absorb losses. This assessment represents the losses that the bank must be able to withstand, reaching the regulatory capital requirement. At the same time, there is also a recapitalization value, which is the amount of capital the bank must hold (after extraordinary intervention) to ensure compliance with licensing conditions and continue licensed operations. Banks that, according to the extraordinary intervention scenario, will be subject to mandatory liquidation, must primarily fulfill the absorption of losses requirement, but they are not required to fulfill the recapitalization value.

In accordance with Article 6 of Regulation No. 78/2020, the value for absorbing losses is calculated as follows:

> Loss Absorption Value = Risk-weighted Exposures t-1 * (Capital Adequacy Ratio (12%)t + Additional Capital Buffer Rate (%)t
> In accordance with Article 7 of Regulation No. 78/2020, the value for recapitalization is calculated as follows:
> Recapitalization Value = Risk-weighted Exposures t-1 * (Capital Adequacy Ratio (12%)t + Additional Capital Buffer Rate (%)t)

According to Regulation No. 78/2020, the Bank of Albania has the possibility to adjust the recapitalization value by considering a significant reduction in the bank's balance sheet size after an extraordinary intervention, as well as restructuring plans and measures. This adjustment is based on a detailed analysis for each bank. One of the methods to consider the reduction in the bank's balance sheet size is by incorporating the credit risk magnitude into the bank's overall risk profile. For example, if the bank's repayment ability is affected by credit risk losses, the bank may have a smaller balance sheet. The impact of reducing the balance sheet size on the regulatory capital requirement is more significant when credit risk has a substantial contribution. However, the reduction in the balance sheet size should not exceed 10% of the total bank assets. Reducing the balance sheet size through divestments and planned sales in restructuring plans can be considered to adjust the recapitalization value by removing high-risk-weight assets from the balance sheet.

This activity is appropriate when the bank is not in default. If the planned restructuring actions are mandatory and have restricted timelines, the Bank of Albania may influence the determination of the recapitalization value. The Bank of Albania has the right to regulate the bank's balance sheet size based on recovery plans, in extraordinary cases and in accordance with the specified conditions. Recovery measures can be considered only if they are seen as reliable, achievable, and immediate after the extraordinary intervention, with a positive impact on loss scenarios. The Bank of Albania has the possibility to intervene to reduce the balance sheet size after an extraordinary intervention, reducing it by up to 5% of the balance sheet size.

Issuing of Bonds

According to the issuance guidelines by the Government of the Republic of Albania, in force since 25.01.2014, bonds have the following characteristics:

- Have a maturity period of more than one year, issued in the local currency (Lek), as well as foreign currencies (USD/EUR).
- Are sold in auctions conducted by the Bank of Albania, in the name and on behalf of the government represented by the Ministry of Finance.
- Are issued at par value, meaning the purchase price is 100% of the nominal value, excluding bonds issued in reopened auctions.

  The coupon (interest earned from investing in bonds) is paid every 6 months and calculated as:

  C = Vn * i * 180/360
  C- coupon
  Vn- nominal value
  i- interest
  In the secondary market, bonds have a 30/360 basis for coupon calculation and price.
  Reopened bonds are calculated as:
  Price = Clean price + Accrued interest

It is worth noting that the variable interest of the bonds is determined by the average of the 3 yields of the last 3 auctions (held before the auction of these bonds) of treasury bonds with a maturity of up to one year. If the maturity date is a holiday, the payment is postponed to the next working day without adding interest or incurring additional delay charges. Entities eligible to participate in the auction are individuals and legal entities, who can be domestic or foreign, and their requests can be competitive or non-competitive. The minimum value for participation in the auction is ALL 500,000 in the national currency and Eur/USD 3,000 in foreign currency. If the demand is equal to or greater than ALL 50,000,000 or Eur/USD 100,000, the demand will be classified as competitive regardless of the entity. As for taxation on income from bonds, it is retained at the source for individual investors and non-profit subjects. Tax resident entities that are subject to income tax and entities registered as local tax-paying subjects for small businesses are not withheld at the source, as they are recorded as income in the balance sheet. Exempt from tax or those with concessions are those with disabled status (according to the respective law), except in cases where the investment is made through economic activities.

The Ministry of Finance exempts itself from liability for delays in bond redemptions or negative market impacts due to the following cases:

- Natural disasters
- Actions caused by other authorities (threat of war, war, or popular uprisings)
- Events affecting the continuity of the Ministry of Finance's work
- Other major forces with widespread impact

All securities are sold in the primary market, which is the auction conducted by the Bank of Albania. The secondary market, or the retail market, includes any transactions carried out on these securities after they have been traded once in the primary market. In the Republic of Albania, we can mention these secondary markets: the interbank market for government securities, the retail market for government securities, and the market on the Tirana Stock Exchange.

Transactions that can be conducted by financial institutions and other licensed entities in the capital market are as follows:

1. Acquisition of treasury bonds in the primary market (through auction) by the investor through a bank or licensed entity.
2. Sale of government securities to the investor from the bank's portfolio or licensed entity.
3. Purchase of government securities by the bank or licensed entity before the maturity date from any investor, regardless of whether previous transactions were not conducted by the same bank or licensed entity.

4. Use of government securities as collateral for other loans or other financial transactions.
5. Redemption of the nominal value of government securities on the maturity date.

Public Offering

A public offering of securities is considered public when it is made to more than 100 individuals (Albanian Financial Supervisory Authority). Companies with a public offering are companies that distribute their shares to the public through stock exchanges or other legal means. The need to increase capital is associated with the goal of expanding activities and improving technology, aiming to become strong competitors in the market. One of the ways to increase capital is by issuing and selling securities by the company. These new issuances, which can be shares, bonds, or securities, are usually traded publicly in what is known as the primary market. Offerings in the primary market can be offered for sale in two ways:

- Public offering, which includes a public offer to communicate to the public the distribution of securities to a minimum of 100 individuals (based on the Capital Markets Law).
- Direct allocation, which includes an offer to distribute securities only to a small group of large investors or a limited number of institutional investors.

To consider an issuance as public, the following conditions must be met:

1. The offer must be distributed to more than 100 investors.
2. The company must be listed simultaneously on the Stock Exchange to enable small investors to convert their investment into liquidity.
3. During the initial public offering, an advertising campaign must commence in the media.

Companies aiming to finance their business activities by involving the public must be organized as publicly traded companies. This results in a complex set of additional rules related to publication, transparency, control, and other aspects of public company management.

The "Traders and Companies" Law stipulates that private offering companies must have a minimum registered capital of ALL 2 million, while those with a public offering must have this minimum capital of at least 10 million lekë (Article 1052). On the other hand, the Law "On Capital Markets", in Article 245 defines public companies as those which offer their securities via Public Offerings, either initial (IPO) or secondary (SPO), at an amount of ALL 130,000,000, to more than 100 investors.

Initial Public Offering (IPO) involves the distribution of a private company's shares to the public for the first time and their listing on the stock exchange to raise capital as an effective way of financing operations. IPO is an obligation for the company offering shares to the public and allows investors to convert shares into liquidity if they wish to exit their investment after a specified period. This is a common way for companies to secure additional funding by distributing portions of their ownership to the public.

Secondary Public Offering (SPO) is the distribution of securities of a company that has previously distributed securities in a public offering. The purpose of this offering is to increase capital to make investments in the company or to fund previous debt. The securities distributed through an SPO are also listed on the stock exchange to create liquidity for their investors. The procedures for conducting an IPO include several important steps, starting with the gathering of shareholders, selecting the form of the registration statement, preparing the necessary documentation, and approving the prospectus. After these steps, the marketing period begins, along with the sale of shares on the capital market. If market conditions are favorable, IPOs can be an efficient way for companies to secure the necessary funding to develop their business activities and increase the company's value.

If contingent convertible bonds were to be issued in Albania, a complete restructuring of legislation would be necessary, also supported by "Basel III Agreement". However, considering what happened with these bonds at Credit Suisse Bank, their implementation in Albania would be even more challenging. Investors would not be eager to enrich their portfolios with these high-risk bonds, regardless of the yield they possess. Furthermore, to invest in contingent convertible bonds, institutional investors would be needed, who must have a well-diversified portfolio.

Another difficulty encountered in the Albanian market is that banks in Albania cannot yet offer public offerings. A public offering brings improvements in financial conditions by ensuring permanent funds that improve the financial situation. The company benefits from the distributed shares as public information about products and services is higher. It increases access to secure capital, thus increasing financing resources and making it easier to obtain loans on favorable terms. Public offerings bring facilities for securing additional capital from banks, offers of shares and bonds, and easier registration forms for additional capital. Since banks cannot offer public offerings, they cannot issue contingent convertible bonds either.

For a country like Albania, the implementation of contingent convertible bonds would increase the minimum regulatory capital requirement and contribute to the development of the banking network. It would provide security for bank depositors and taxpayers because immediate government intervention would not be needed in case of bankruptcy. The bank would be “rescued” from these bonds. Other benefits that the bank will have are increasing the first-tier capital, higher valuation of shares during the life of the CoCos, improving liquidity position during banking stress periods, and strengthening the bank’s balance sheet.

Conclusions and Recommendations

Conclusions

Considering the abovementioned analysis, we conclude that:

1. Albanian legislation has not specifically addressed contingent convertible obligations and many other financial instruments. This has rendered these instruments unenforceable in the financial practice of Albania.
2. The absence of a well-established securities market has made it difficult for financial institutions, such as banks, to issue contingent convertible bonds and other securities. Investors are not inclined to risk their portfolio with securities that do not have a developed market.
3. Regulations and procedures related to extraordinary interventions in the banking sector are crucial to ensure financial stability and protect the interests of investors and depositors in emergency situations.
4. Naming government bonds is an important and well-regulated process, where the nominal value, coupons, and payment conditions are clearly defined.
5. The limitation in the Albanian banking sector, where banks are unable to offer public offerings and contingent convertible bonds, poses a significant obstacle. This restriction hinders the improvement of financial conditions, access to secure capital, and favorable loan terms. It also restricts the distribution of shares and the ability to capitalize on public awareness of products and services.

Recommendations

Considering the abovementioned conclusions, it is recommended as follows:

1. Improvement of Albanian legislation to specifically address contingent convertible bonds and other financial instruments. This would aid in the development of the securities market and increase interest in such investments.

2. Encouragement of establishing a fully functional securities exchange in Albania to facilitate the issuance and trading of various securities. This would make investments in securities more attractive and help increase available capital for financial institutions.
3. Continued improvement of regulations and procedures related to extraordinary interventions in the banking sector to ensure they align with international standards and maintain financial stability.
4. Encouragement of banks and financial institutions to explore the possibility of investing in contingent convertible bonds, viewing them as a means to raise capital and strengthen their position in the financial market. This could be done through incentives and rewards for institutions that utilize these instruments with long-term maturity.
5. Advocate for regulatory reforms that allow Albanian banks to conduct public offerings and issue contingent convertible bonds. These changes would enable banks to enhance their financial stability, access additional capital, and improve their overall financial situation. Additionally, it would facilitate the dissemination of public information about their offerings, attracting more investors and contributing to a more robust financial market.

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