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Bulgaria:
Diagnostic of the State of Development of the Bulgarian Capital Market

Gap Analysis and Recommendations Reports

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Carried out with funding by the European Union via the Structural Reform Support Programme and in cooperation with the European Commission's DG Structural Reform Support

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Bulgaria:
Diagnostic of the State of Development of the Bulgarian Capital Market

Gap Analysis Report

August 2022

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Abbreviations

AeRO	Growth segment of the Bucharest Stock Exchange
BEAM	Growth segment of BSE
BGN	Bulgarian lev
BNB	Bulgarian National Bank
bp	Basis point: one hundredth of one percent (0.01%)
BSE	Bulgarian Stock Exchange
BNBGSSS	Bulgarian National Bank Government Securities Settlement System
CCP	Central Counterparty
CDAD	Central Depositary AD
CEE	Central and Eastern European members of the EU
CSD	Central Securities Depository
CSRD	EU Corporate Sustainability Reporting Directive
DMO	Debt Management Office
DVP	Delivery versus Payment
EBA	European Banking Authority
EBRD	European Bank for Reconstruction and Development
ECB	European Central Bank
EIOPA	European Insurance and Occupational Pensions Authority
EMIR	The European Market Infrastructure Regulation
ESMA	European Securities and Markets Authority
ESROT	Electronic System for Registration and Servicing of Trade in Government Securities
ESRS	European Sustainability Reporting Standards
EU GBS	EU Green Bond Standard
FOP	Free of Payment
FSC	The Bulgarian Financial Supervision Commission
GHG	Greenhouse Gas(es)
GSS	Green, social and sustainability bonds
GSSS	Government Securities Settlement System
HUF	Hungarian forint
IBEX	Independent Bulgarian Energy Exchange
IFRS	International Financial Reporting Standards
ISSB	International Sustainability Standards Board
MOF	The Bulgarian Ministry of Finance
MTF	Multilateral Trading Facility

NCGC	The Bulgarian National Corporate Governance Council (also known as NKKU)
NFRD	EU Non-Financial Reporting Directive
PD	Primary Dealer
RON	Romanian leu
RSP	Register of Special Pledges
SFDR	Sustainable Finance Disclosure Regulation
SGF	Settlement Guarantee Fund
SME	Small and Medium-sized Enterprises
TCFD	Taskforce on Climate-related Financial Disclosures (convened by the Financial Stability Board)
UCITS	Undertakings for the Collective Investment in Transferable Securities

Summary

In recent years, the development of capital markets is a key priority both at European level as well as at national level, because in order to achieve a fully integrated capital market in the European Union, national markets must also evolve.

Against this background, the Bulgarian Ministry of Finance has started a project for Diagnostic of the state of development of the Bulgarian capital market which is carried out with funding by the European Union under the Structural Reform Support Programme and in cooperation with the European Commission's Directorate General for Structural Reform Support, DG REFORM, implemented by the European Bank for Reconstruction and Development.

The objectives of the project are to assess the current status of the local capital market, to identify the barriers and impediments for its further development, to benchmark it with selected EU capital markets and to provide recommendations to address the identified barriers.

The assessment of the current status of the Bulgarian capital market and the recommendations will be discussed with the key stakeholders and after the completion of the project will serve as a basis for the development of a Capital Market Development Strategy.

The current project is the first MOF initiative to develop a capital markets strategy since the launch of a development strategy led by market participants in 2016. This Gap Analysis Report, based on a series of interviews with market stakeholders and analysis by the authors, is an interim step to provide diagnostic analysis of the current state of the capital market in Bulgaria. It will be followed by recommendations in 2023. The report has been produced with the assistance of the MoF and does not necessarily reflect its views.

Bulgaria is a small economy with the lowest GDP per capita in the EU. Although Bulgaria has well-established market institutions, its capital market lags behind regional peers as its development is related to general economic development and broader national characteristics.

Several related points keep reappearing in the interviews with market stakeholders and in this analysis. The mass privatisation programme in the 1990s was an important stage in re-establishing the market but has also left a legacy that still holds it back. Many of the shareholders who took part in the mass privatisation are now considered “dormant” as they are no longer active, having lost track of their shareholdings; in some cases they have died and their shares have not passed to their inheritors. Maintaining this body of dormant accounts imposes an operational and financial burden on the CDAD. It also undermines corporate accountability, as companies may be controlled by dominant shareholders, in some cases apparently taking advantage of the non-participation of dormant shareholders to consolidate their control. Although Bulgaria has a well-developed corporate governance code, compliance is weak. The combination of dominant shareholders and weak control of corporate governance gives rise to a widespread sense that company insiders put their interests before those of shareholders as a whole. This undermines trust in the market and makes investors reluctant to commit their funds to the market.

There is a shortage of investable assets in the market for a variety of reasons. Part of the legacy of the mass privatisation process is that most large companies have a very small free float, with the great majority of shares held by core shareholders. Even the largest companies are small by international standards and the market lacks a benchmark issue since Bulgarian

Telecom was taken private. There have been no other very large, privatised banking or energy companies, which often provide the benchmark in other markets. The government has not taken steps that could add to investable assets by identifying state-owned enterprises for privatisation. Although government borrowing is low by European standards, the government funds two-thirds of this in the international bond markets. Combined with the limited role of the BNB under the currency board arrangement, the result is that trading in government securities – normally the core of capital markets – is very low.

The shortage of investable assets and the low level of trust deter institutional investors from investing in the market. Thus, a vicious circle develops, whereby the low level of investable assets deters investors from investing and the absence of investors deters companies from coming to the market to create more assets.

There is also a widespread belief that the legal and regulatory environment is unsupportive. Most of the legal and regulatory framework is now determined by EU law and regulation. Rules designed to address the problems of large markets and with compliance costs that can be borne by large financial groups are felt to be disproportionately burdensome for a very small market such as Bulgaria. While this applies to all smaller countries in the EU, the way in which EU rules are transposed into Bulgarian law and their regulatory implementation may also affect their impact on the market.

The medium level of financial literacy has sometimes been identified as a barrier to development. Indeed, the business sector generally is too little aware of the potential of capital market finance. However, the enthusiastic response from SMEs to the opportunity of the BEAM market and from retail investors to international investment opportunities suggests that there is at least sufficient knowledge to support organic growth of the market at its current stage. Furthermore, the institutions and market participants have launched many initiatives in the recent years to enhance the level of financial literacy, including in the area of capital markets.

Cash securities markets are well-served by the Bulgarian Stock Exchange (BSE), whose most recent innovations – the BEAM market and international segment – have been well received. Unlike other CEE countries, there is competition in the form of an independent MTF. The post-trade arrangements meet the basic needs of the market. However, having two CSDs - one for government securities and one for corporate securities - duplicates costs and introduces operational inefficiencies. There is no pressing need to develop derivative markets and the associated clearing arrangements, though these are now being planned. Overall, the market infrastructure is comparable to that in Hungary and Romania. Like Hungary and Romania and some other CEE countries – but unlike the three Baltic countries – the government is involved in capital market institutions as shareholder.

Although there are areas for improvement in the market infrastructure, it is not the reason why capital markets are not making their full contribution to Bulgaria's economic development

Finally, the prospect of euro accession is significant for the market. There is an expectation that joining the single currency will help to open Bulgaria to international investors and differentiate it from the other CEE countries that remain outside the euro area. However, openness also poses challenges, for example in the government securities market, which need to be understood and addressed.

Introduction

The objective of this project is to assist the relevant Bulgarian authorities in identifying the barriers that exist for market development and construct relevant policy measures. The findings of the project, final diagnostic report and other policy recommendations will serve as basis for the design of a future Capital Market Strategy for Bulgaria, capturing general capital market elements as well as country-specific issues. This Gap Analysis Report is an interim step to provide diagnostic analysis of the current state of the capital market in Bulgaria. It will be followed by recommendations in 2023.

The Project is funded by the European Union via the SRSP and implemented by the Capital and Financial Markets Development (CFMD) Team of the European Bank for Reconstruction and Development (EBRD), in cooperation with the European Commission's DG REFORM.

Bulgaria is a small economy with the lowest GDP per capita in the EU and its capital market lags behind regional peers. With low government borrowing and bank finance readily available at low interest rates, there is little pressure to raise finance through the capital market. Many business owners are not aware of or do not understand the possibilities. Private savings, both direct and through pension funds, are strong and following the global stock market crash in 2008-10 are increasingly invested outside Bulgaria.

There is an opportunity for the capital markets to play a larger role in providing a domestic vehicle for savings and diversifying the sources of finance for enterprises, local government and sustainability-oriented investments. Bulgarian authorities are committed to the development of local capital markets. An initial step taken in October 2016 was the establishment of the domestic Capital Market Development Council and the subsequent adoption of a national strategy and roadmap for market development. Furthermore, a 2018 report of the Working Group on Capital Markets Union of the Vienna Initiative identified a range of high-level policy measures to be taken by the Bulgarian authorities. However, these initiatives appear to have lost momentum.

This report builds on a series of 44 interviews conducted with over 30 different authorities and market stakeholders during February-May 2022. The Project Team are very grateful to all the participants who gave their time to take part in the interviews and to review our work subsequently. This report builds on the views expressed in those interviews by providing analysis and benchmarking. To provide context for the analysis of the Bulgarian markets, wherever possible they are benchmarked against Hungary and Romania, as the closest comparators in the EU.

Table 0.1 Data on benchmark countries

	Bulgaria	**Hungary**	**Romania**
Date of joining EU	2007	2004	2007
Population (End-2021)	6.9mn	9.7mn	19.2mn
GDP per capita (EUR, end-2021)	6,690	13,660	9,380

Source: Eurostat

Information will also be presented from other countries, primarily in the CEE region where they provide examples of best practice in a particular activity which is relevant to Bulgaria.

1 Overview of Bulgarian capital markets

Capital markets can play an important role in the economy as a source of finance, as a home for savings and as a source of information through price discovery. However, the capital markets in Bulgaria currently fall short of playing their full supportive role in economic development, as shown by the following indicators.

Overview of the role of capital markets in the Bulgarian economy

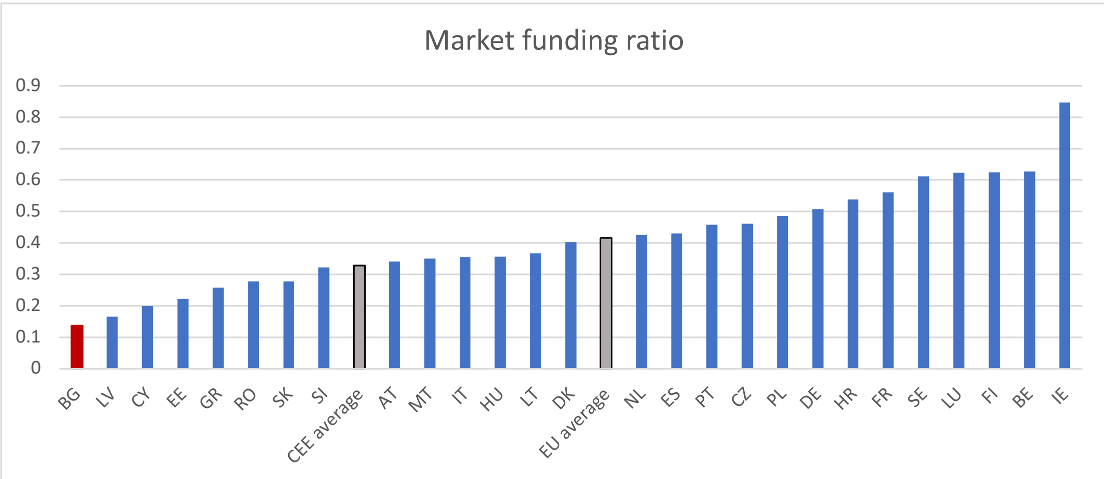
A Source of finance

Capital markets can be a source of finance for government, infrastructure and business. Compared with bank finance, capital market finance is generally longer-term and, in the case of equity finance, does not require a fixed return and can absorb losses. This contributes to financial stability by protecting bank lenders from some of the variations in the business cycle.

However, the capital markets are not serving this purpose in Bulgaria: the Market Funding Ratio (which measures non-bank finance raised by non-financial corporations as a percentage of total finance, including bank loans[1]) in Bulgaria is the lowest in the EU.

The reasons why capital markets are not used more widely as a source of finance are discussed in Section 3 below.

Figure 1.1 Market Funding Ratio across EU member states



Data for 2019.

Source: European Commission, Overview of CMU Indicators

A home for savings

Capital markets enable savings to be invested with a range of time horizons and risk profiles to meet the needs and risk appetites of different types of investors.

[1] This is used in preference to the more common market capitalisation for several reasons: market cap reflects the accumulation of historic use of capital markets rather than current use; comparisons can be distorted by different valuations in different markets; and exchange groups covering multiple countries make it harder to compare data at the national level.

However, in Bulgaria, investable capital market assets[2] amount to some BGN15 billion, compared with household financial assets of some BGN195 billion[3]. Thus, capital market instruments available domestically fall far short of providing a home for domestic savings.

The relationship between domestic capital markets and domestic savings in Bulgaria are discussed further in Section 4 below.

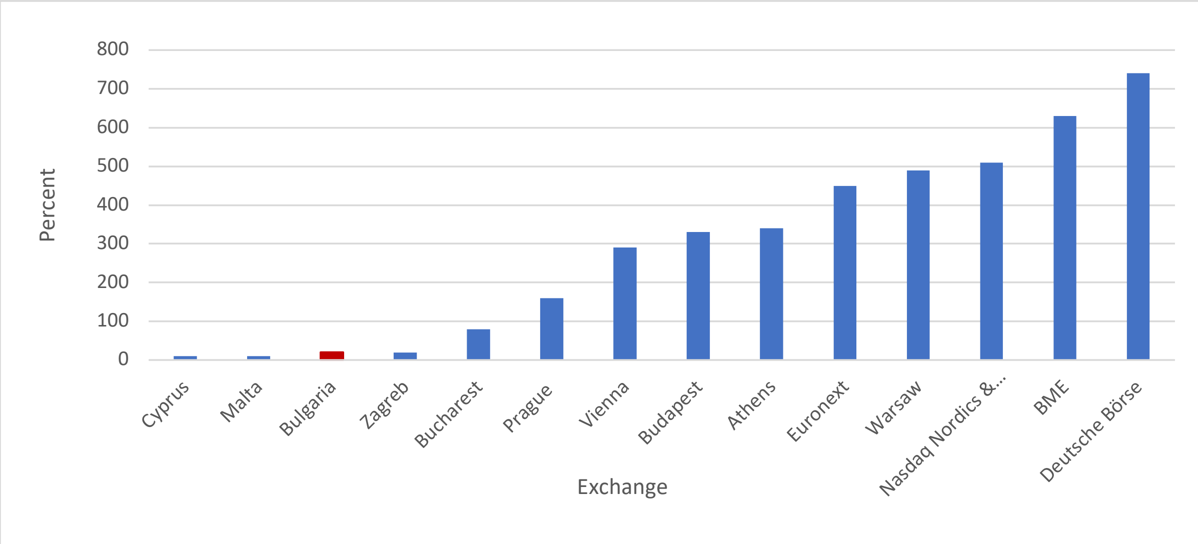
Price discovery

Continuous trading of capital market assets provides price discovery. In the case of government bonds, the market-established yield curve provides a benchmark for pricing other assets. For other assets, traded prices provide information on market conditions and investors' views. The visibility of public prices can act as an incentive to improve failing management.

However, the price discovery process depends on liquid markets. Again, the capital markets are not serving this purpose in Bulgaria, as market turnover is at the very low end of European exchanges[4].

The low trading turnover and lack of liquidity in Bulgaria is analysed in Section 5 below.

Figure 1.2 Domestic equity market velocity of turnover on selected EU exchanges



Source: FESE Statistics, 2021

[2] Defined as total instruments listed in the bonds, SPV and premium and standard equity segments on BSE, adjusted for free float.

[3] Source: BNB

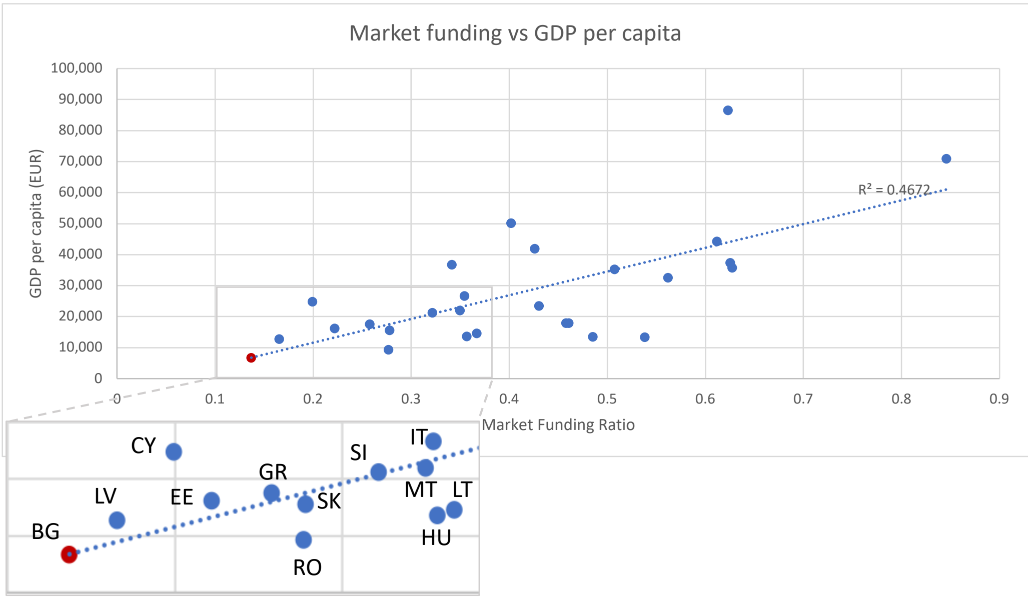
[4] Data is given for exchanges that are members of the Federation of European Securities Exchanges. In the cases of Euronext and Nasdaq the exchange group incorporates the national exchanges of multiple countries.

Factors influencing capital market development

The following sections of this report review the technical factors that influence the development of capital markets, but capital market development also depends on broader national characteristics.

It is related to general economic development, as shown by comparing the market funding ratio with GDP per capita: higher GDP per capita is correlated with greater use of capital market finance, as shown in the following chart (which shows all EU member states).

Figure 1.3 Comparison of market funding and GDP per capita ratios for EU member states



Each data point represents an EU member state.
Market funding source: European Commission, Overview of CMU Indicators
GDP per capita source: Eurostat

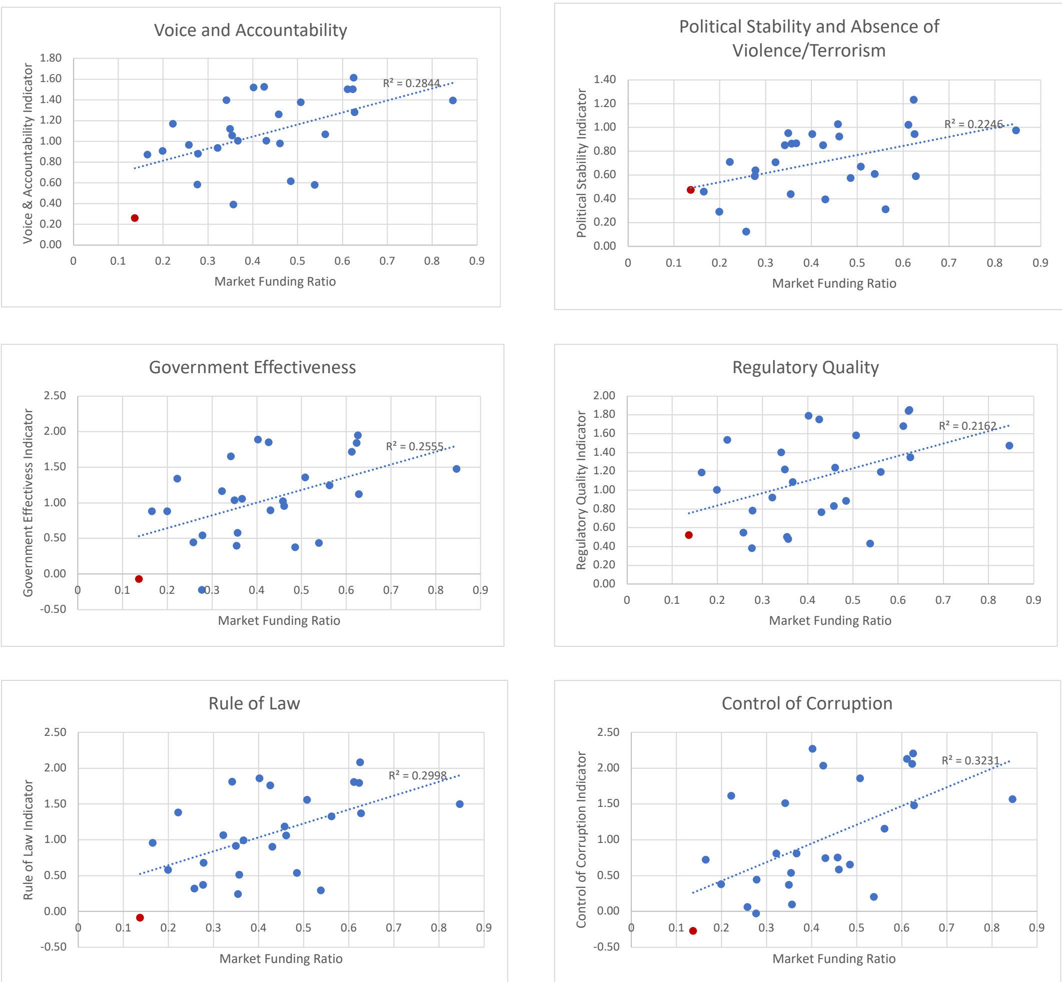
Although it has often been shown that capital market development supports economic growth, causality probably runs in both directions: some of the pre-requisites for capital market growth depend on the level of economic development.

Capital market development also depends on the national legal and governance context. Unlike bank lending, where the lender has the opportunity to know the borrower and can exercise a degree of control, capital market transactions are typically arm's length. They therefore depend on the degree of trust between the investor and the recipient of funding. This is influenced by the overall level of governance in the economy. This can be measured in the six governance indicators developed by the World Bank's Worldwide Governance Indicators. The six indicators are:

- Voice and Accountability
- Political Stability and Absence of Violence/Terrorism
- Government Effectiveness
- Regulatory Quality
- Rule of Law
- Control of Corruption

Across the EU there is a degree of correlation between capital market development and the level of governance: higher scores for the governance indicators are correlated with greater use of capital market finance, as show in the charts on the following page, (which show all EU member states).

Figure 1.4 Capital market development and national governance



Each data point represents an EU member state. Bulgaria is indicated by the red plot in each chart
Governance Indicators, 2020, source: World Bank, http://info.worldbank.org/governance/wgi/
Market Funding Ratio, 2019, source: European Commission, CMU Indicators

2 Institutions and markets

The key institution in the Bulgarian capital market is the Bulgarian Stock Exchange.

Stock exchanges were re-established in Bulgaria in 1991 after the end of the Socialist era. The present Bulgarian Stock Exchange was formed in 1995 from the merger of the regional exchanges and is by far the main venue for listing and trading securities of all types. Its listing and trading activities are discussed in more detail in the following sections.

There are three MTFs authorised in Bulgaria[5]. Two are owned by BSE. BEAM is an SME Growth Market and the other is BSE International, an MTF for international securities.

The third is MTF Sofia, owned by Capman Holding, a financial group. It has four segments – equities, bonds, derivatives and growth market. Turnover across all its segments in 2021 was BGN 688mn compared with BGN 819mn on BSE.

BSE was listed on its own market in 2011. It thus represents a hybrid ownership model compared with exchanges in the benchmark countries: like the Bucharest Stock Exchange it is listed on its own market, whereas Budapest is not; but like the Budapest Stock Exchange national authorities retain a majority stake, whereas they do not in Bucharest.

Table 2.1 Ownership of stock exchanges

Share of ownership	**Bulgarian Stock Exchange**	**Budapest Stock Exchange**	**Bucharest Stock Exchange**
Ministry of Finance	50.05%	-	-
National central bank	-	81.35%	-
Other investors	49.95%	18.65%	100%
Of which, foreign investors	*6.38%*	*N/A*	*2.35%*

Sources: Annual Management Report of Bulgarian Stock Exchange Group 2021; Budapest Stock Exchange Annual Financial Statements 2021; Bucharest Stock Exchange, Shareholding structure as of April 30, 2022

For post-trade services, Bulgaria has two CSDs but no Central Counterparty (CCP).

The Bulgarian National Bank (BNB) was appointed fiscal agent for the government in 1991 and operates the Bulgarian National Bank Government Securities Settlement System (BNBGSSS). This is the depository for domestic government securities and settles transactions in them.

Central Depository AD (CDAD) was established in 1996 as the central securities depository for securities other than government securities. The shareholders of CDAD are the Ministry of Finance (43.6%), BSE (6.21%) and banks and financial companies. Co-operation between the BSE and CDAD is close, even though the BSE ownership stake in CDAD is small, .

[5] https://registers.esma.europa.eu/publication/searchRegister?core=esma_registers_upreg, accessed 31.05.2022

The services provided by the two CSDs and the relationship between them are discussed in Section 6.

In the absence of local derivative markets and with low trading volumes in cash markets, the need for a domestic CCP has not arisen.

In April 2020 BSE and CDAD jointly established Clear EX to provide clearing services for the exchange-traded spot market for electricity, natural gas and commodities. Separately, in January 2022 BSE signed a framework agreement with the Greek exchange Athex for the admission to trading, clearing and settlement of Bulgarian derivatives. The scope of the agreement includes the introduction of single stock futures having as underlying selected stocks traded at BSE and index futures on the main BSE index SOFIX as underlying index. The products are planned to be traded on the derivative market of the Athens Stock Exchange and the clearing to be provided by ATHEXClear in accordance with the relevant requirements of EMIR and the EU legislation. The Euro will be the currency for both trading and clearing of the instruments[6].

A comparison of the market infrastructure institutions in the benchmark countries is given in the table below.

[6] https://www.bse-sofia.bg/en/exchange-news?from=2022-01-10&to=2022-01-10

Table 2.2 Market infrastructure institutions

	Bulgaria	**Hungary**	**Romania**
Cash securities	BSE	Budapest SE	Bucharest SE
MTFs	BSE International BEAM market MTF Sofia	Beta Market XBond BÉT Xtend SME	Bursa de Valori AeRO
Central Securities Depository (CSD)	Government securities: BNB Other securities: CDAD	All securities: KELER	Government securities: National Bank of Romania Other securities: Depozitarul Central
Ownership of CSD	CDAD: 43.7% MOF 6.21% BSE 50.09% Others	KELER: 53,33% directly National Bank of Hungary 46.67% directly Budapest SE	Depozitarul Central: 69% Stock Exchange 31% Others
Securities derivatives	Proposed through Athex	Futures: 13 equities and the index	
Clearing securities derivatives	Proposed through AthexCLEAR	KELER KSZF (CCP)	CCP.RO[7] under development

Bulgaria's market infrastructure broadly matches that of the benchmark countries in terms of its scope. The absolute cost of the infrastructure is lower in Bulgaria than in the benchmark countries. Although the Bulgarian market is smaller, the total cost does not appear to be an impediment for the market.

[7] Formation of CCP.RO proposed in 2020 with support from CC&G: https://www.euronext.com/en/news/ccg-and-ccpro-bucharest-sa-sign-landmark-ccp-clearing-agreement

Table 2.3 Revenues of market infrastructure derived from market users

Operating revenue (€ mns)	Bulgaria	Hungary	Romania
Exchange	1.0	8.4	5.3
Corporate securities CSD	1.2	17.6	3.3
Total	2.2	26.0	8.5

Sources:

Bulgaria: BSE Annual Report (2020), CDAD Annual Report (2019)

Hungary: Budapest Stock Exchange and KELER Annual Reports (2020)

Romania: Bucharest Stock Exchange Financial Statements (2020) and Depozitarul Central Annual Report (2020)

Previous capital market development programmes

There was a previous programme to develop the Bulgarian capital markets in 2016. A Capital Market Development Council was formed, including the FSC, BSE, CDAD and the principal market stakeholder associations. It presented a development strategy in 2016. It was followed in 2018 by a meeting of the Vienna Initiative, which endorsed the proposals of the Working Group on Capital Markets Union. Many of the measures put forward have subsequently been implemented (see table below). However, the process of strategy development came to a stop and the Capital Market Development Council is no longer meeting.

Bulgaria: progress on capital market initiatives

<table>
<tr><th>Capital Market Development Council, 17.11.2016</th><th>Vienna Initiative Working Group on Capital Markets Union, 12.03.2018</th><th>Implementation of measures</th></tr>
<tr><td>1. Amendments to laws regulating financial markets to remove regulatory and administrative burdens.
Some of these amendments include:
1. Amendments to ease the administrative procedures related to corporate actions, inheritance, etc.;
2. Amendments to the regulatory framework related to the regime of changing bond issue parameters;
3. Amendment to the Law on Public Offering of Securities (LPOS) in relation to regulation of rights to participate in general meetings of shareholders and shareholder registers.
4. Amendment to the LPOS in relation to Regulation (EU) No. 909/2014 of the European Parliament and of the Council of 23 July 2014 on improving securities settlement in the European Union and on central securities depositories and amending Directives 98/26/EC and 2014/65/EU and Regulation (EU) No 236/2012;</td><td>Progress was made on the regulatory side with the approval of the amendments to the Bulgarian Law on Public Offering of Securities by the Bulgarian Parliament in July 2017. The main changes aimed at:
• facilitating the access of SMEs to the capital market;
• speeding up the listing process;
• creating robustness and predictability in corporate debt market;
• introducing legal framework regarding semi-annual dividend distribution by public companies;
• easing the regulatory requirements regarding the publication of a notice for the beginning of an initial public offering aiming at reducing the IPO costs;</td><td>Points 1 to 3, 5 & 6 of the Capital Market Development Council Recommendations were addressed by an amendment in the LPOS of 25 May 2017.

Points 4 and 7 were addressed by a new regulation on central securities depositories.

Vienna Initiative suggestions were addressed by amendment of LPOS of 16 July 2020</td></tr>
</table>

Capital Market Development Council, 17.11.2016	Vienna Initiative Working Group on Capital Markets Union, 12.03.2018	Implementation of measures
5. Shortening the terms for registration of securities resultant from capital increases once the subscription has been completed; 6. Establishing procedures for delisting of companies which have no interest in staying public or do not conform with the good corporate practices of public companies; 7. Law on Clearing and Settlement of Financial Instruments; 8. Other amendments. The implementation of these amendments in the legislation will result in: • establishing of a sound regulatory framework for development of the capital market; • optimising and reducing the administrative burden for public companies and other market participants; • resolving existing regulatory inconsistencies. Implementation deadline: September 2017.		

Capital Market Development Council, 17.11.2016	Vienna Initiative Working Group on Capital Markets Union, 12.03.2018	Implementation of measures
2. Facilitate financing of public offerings of financial instruments through operational programmes and EU funding. The project involves creating opportunities for IPO and SPO to be funded from EU funds through Operational Programme ‘Innovations and Competitiveness’ 2014-2020. Deadline for applying (launching the programme): November 2016. Deadline for implementation of IPO/SPO: 18 months after approval of the project.	Facilitate financing of public offerings of financial instruments (both IPOs and SPOs) through operational programmes and EU funding (e.g. through Operational Programme ‘Innovations and Competitiveness’ 2014-2020).	
3. Development of a single entry point for disclosure and distribution of information by market participants (‘single entry point’). The concept of the project is to establish a single portal for provision of integrated services to capital market institutions. Project term: 12 months after provision of funding.	Development of a web-based single entry point for disclosure and distribution of information by market participants to capital market institutions.	In 2019, the FSC participated together with CDAD, BSE and Ernst & Young under a European programme in the preparation of a concept project for the implementation of a 'single entry point'. The project has been completed, but funding for its implementation is currently awaited.

Capital Market Development Council, 17.11.2016	**Vienna Initiative Working Group on Capital Markets Union, 12.03.2018**	**Implementation of measures**
4. Incentives to small and medium size businesses to raise capital through the capital market. Increase 'soft' thresholds for prospectuses. Encourage the establishment of specialised platforms (segments) for trade in startups, innovative, small and medium companies without prospectuses. The project is related to creating preferential conditions for small and medium businesses to access financing though the capital markets. Implementation deadline: 15 months (by December 2017).	Incentives to small and medium size businesses to raise capital through the capital market. In order to facilitate the access to capital for smaller and medium-sized enterprises, the Bulgarian exchange is working on a project to introduce an SME private market for companies to raise up to EUR 1 million with no requirements for approved prospectus. The requirements for authorized advisors that are among the prerequisites for setting up the market will be detailed in Q4 2017. In addition, an SME Growth market will be discussed as a potential option for the Bulgarian exchange in the MiFID II environment.	BSE has established the BEAM market for SMEs. The threshold for offerings without prospectuses has been raised from EUR 1mn to 3mn and subsequently to EUR 8mn. A pilot tax regime has been introduced – the same tax alleviations applicable to securities listed on a regulated market to be applied also to securities listed on a SME Growth market. This regime has been introduced in 01.01.2022 and will be applicable till 31.12.2025. From 2018 to 2020 inclusive, the FSC did not collect prospectus approval fees as a measure to stimulate the capital market.

Capital Market Development Council, 17.11.2016	Vienna Initiative Working Group on Capital Markets Union, 12.03.2018	Implementation of measures
5. Establish opportunities for Bulgarian investors and issuers to access, via the BSE, foreign markets, including listing on such foreign markets. The project is related to ensuring direct access of resident BSE members to a number of highly liquid instruments in Europe and the rest of the world. Implementation deadline: 8 months.	Establish opportunities for Bulgarian investors and issuers to access, via the Bulgarian Stock Exchange, foreign markets, including listing on such foreign markets. The project named BSE International is related to the establishing of a new market on the Exchange which will allow domestic trading in up to 75 foreign financial instruments that have been already admitted to trading on other regulated markets. The settlement will be done by Clearstream Luxembourg which has a direct link to the Bulgarian CSD. The project consists of two main phases and its first phase is expected to go live in the third quarter of 2017: • establishing of a regulated market segment for instruments with EU-compliant prospectuses; • establishing of an MTF for all other instruments.	BSE has set up MTF BSE International.

Capital Market Development Council, 17.11.2016	**Vienna Initiative Working Group on Capital Markets Union, 12.03.2018**	**Implementation of measures**
6. Re-activate dormant accounts holding shares acquired from the mass privatization 6.1. Information campaign for re-activation of dormant, inactive accounts holding shares acquired as a result of the mass privatisation. The project ‘Information campaign for re-activation of dormant accounts holding shares acquired as a result of the mass privatisation’ aims to inform holders of such instruments of the available opportunities for disposal. Implementation deadline: 12 months after amendments to LPOS 6.2. Measures for re-activation of dormant, inactive accounts holding shares acquired as a result of the mass privatisation. Measures to relieve the procedures for disposal of assets acquired from the mass privatisation (sale, inheritance, etc.) in a manner that is economically effective for their owners. Implementation deadline: 12 months after amendments to LPOS	Re-activate dormant accounts holding shares acquired from the mass privatization by launching a relevant campaign informing accounts' holders about available opportunities for disposal. Specific measures enabling the disposal of assets (sale, inheritance, etc.) in an economically effective manner for their owners would have to be adopted.	A study was carried out for EBRD in 2017. In relation to the dormant accounts the Ministry of Finance published for consultation for 2 months a concept paper in relation to the dormant accounts. The vast majority of respondents did not support the concept paper. Following this consultation, the following year Ministry of Finance has prepared a detailed impact assessment including the responses of the different stakeholders and proposed a draft law in order to regulate the matter which was also subject to a wide consultation for more than 2 months. Overall, there was no sufficient support for the proposed amendments.

Capital Market Development Council, 17.11.2016	Vienna Initiative Working Group on Capital Markets Union, 12.03.2018	Implementation of measures
7. Launch of a secondary market of government securities on the BSE. Implementation deadline: June 2017.	Launch of a secondary market for trading in government bonds on the BSE. It will provide an easy access of retail investors to secondary trading in these instruments according to the rules of the stock exchange. The settlement will be done by the Bulgarian Central Bank and the Bulgarian CSD. The expected launch of the new market is the end of Sept 2017.	Implemented in 2017. There is a segment of government bonds on the BSE, but all trading takes place elsewhere.

Capital Market Development Council, 17.11.2016	Vienna Initiative Working Group on Capital Markets Union, 12.03.2018	Implementation of measures
8. Organise and conduct an awareness campaign at various levels to explain the mechanisms of operation of the financial market. The project is related to organising an awareness campaign to increase the financial literacy regarding the Bulgarian capital market, its operation, essence, services and access to them in the Bulgarian capital market. This also includes access to the capital market, services of investment intermediaries, pension system – opportunities and manner of access, insurance services – manner of access. Implementation deadline: a period of 12 months after provision of funding. Provision of funding: within 6 months	The Bulgarian Stock Exchange organises a number of activities to enhance investment culture and knowledge of financial instruments in Bulgaria. In addition, the Strategy sets several objectives aiming to improve the understanding of capital market, enhance financial literacy and incentivise SMEs' participation by: Introducing additional specialised courses in the educational institutions; ¬ Organizing seminars and financial forums; Providing training courses by media; Encouraging the organisation of specialised university courses Encouraging publishing of stock exchange information in media, etc. • The Stock Exchange conducts an awareness campaign at various levels to explain the mechanisms of operation of the financial market (its operation, services and access, services of investment intermediaries, pension system, insurance services, etc.) • It promotes and supports measures to raise the level of domestic savings including pension funds.	The National Strategy for Financial Literacy of the Republic of Bulgaria was developed. The strategy is accompanied by an Action Plan for the period 2021-2025 which covers the main and the top priority activities to be carried out in the following years in order to increase the level of financial literacy. The Strategy and the Plan were adopted by the Decision of the Council of Ministers as of 10 February 2021. It is envisaged annual reporting to the Council of Ministers on their implementation. Activities in the field of capital markets financial literacy are planned and gradually being implemented (see also Section 4).

Capital Market Development Council, 17.11.2016	**Vienna Initiative Working Group on Capital Markets Union, 12.03.2018**	**Implementation of measures**
9. Organising of and access to services for clearing of mutual obligations at a central counterparty (CCP). The project is related to exploring the possibilities for providing access to CCP clearing service under a contract for provision of such service by an existing EU clearing institution. Implementation deadline: 12 months.	Access to services for clearing of mutual obligations at a central counterparty (CCP). It would have to be explored whether an existing EU clearing institution could provide access to CCP clearing services.	Opportunities are being explored to develop clearing in future through a link with Athens
10. Development of an infrastructure for trading in financial derivatives. Implementation deadline: for a period of 12 months after provision of funding	Develop an infrastructure for trading in financial derivatives.	No progress. Single stock futures and index futures are expected to be traded on Athex in euro, cleared by AthexClear (Q4 2022?) Possibly in future through link with Athens?
11. Establishment of a single system for lending of financial instruments (lending pool). The project is related to the establishment of a single system for lending of financial instruments, which will facilitate the settlement of short positions and will guarantee settlement when financial instruments are lacking. Implementation deadline: 2017.	Establish a single system for lending of financial instruments (lending pool). Such system would facilitate the settlement of short positions and would guarantee settlement when financial instruments are lacking.	BSE and CSD are currently drafting the rules for establishment of a system for stock lending. The rules are planned to be discussed with the local investment community in Q3 2022. Implementation deadline: Q4 2022

Capital Market Development Council, 17.11.2016	Vienna Initiative Working Group on Capital Markets Union, 12.03.2018	Implementation of measures
12. Capitalisation of large state-owned companies via BSE. The proposal is to capitalise large state-owned companies through sale of existing shares or capital increase capital by issuance of new shares on the stock exchange, whereas the State retains its strategic control over each of the companies. Implementation deadline: gradual implementation by 2018. Start of the project: the second half of 2017.		No measures have been implemented.
13. Exploring, organising and facilitating of the possibility for funding of infrastructure projects through the capital market. Implementation deadline: 2019.	Exploring, organising and facilitating the possibility for funding of infrastructure projects through the capital market.	No measures.
14. Exploring the possibility and developing a roadmap for accession to the European securities settlement engine, TARGET2-Securities. This is a project related to the development of a single European system for clearing and settlement of transactions in financial instruments. Implementation deadline: 2017.	Exploring the possibility and developing a roadmap for accession to the European securities settlement engine, TARGET2-Securities (development of a single European system for clearing and settlement of transactions in financial instruments).	Both BNBGSSS and CDAD plans to join T2S in September 2023. CDAD is due to receive the ECB Governing Council's endorsement for its T2S migration in September 2022.

Capital Market Development Council, 17.11.2016	Vienna Initiative Working Group on Capital Markets Union, 12.03.2018	Implementation of measures
	Facilitate the settlement procedures within the SEE Link platform. The proposed solution includes settlement in the respective local CSD based on standardized instructions exchanged between an investment firm that has accounts in all regional CSDs, the SEE Link brokers and the CSDs.	Not aware of any progress

3 Issuers

Development of the market

The Bulgarian stock market of today started with the mass privatisation programme of the 1990s. Although the mass privatisation process was critical in reviving the Bulgarian stock market, it has left a legacy in several forms which still affect the market today.

Mass privatisation took place in two waves in 1995 and 1998. Vouchers were offered to all Bulgarian citizens over the age of 18 (subject to a registration fee) and could be used either to bid for shares in privatised companies or invested in privatisation funds, which would bid for companies. Around 3 million Bulgarians participated, with 83% of the vouchers committed to privatisation funds. The share of state companies offered for privatisation varied between 10% and 90%, with the average around 42%[8]. Many of the privatisation funds converted into holding companies and are listed on BSE. Bulgaria did not privatise banks through its mass privatisation programme[9], whereas in other countries banks privatised in this way have formed a core part of the listed market.

The market took a new direction in the early 2000s, moving on from mass privatisation. The SOFIX index was launched in 2000. The first IPO took place in 2004, followed in 2005 by the sale through the BSE of a 34.78% stake in the Bulgarian Telecommunication Company, although it was later acquired by a group of private investors. Shortly afterwards BSE launched the BG40 index, based on the 40 most actively traded companies. These were the most successful years for BSE, when the market capitalisation of listed companies rose rapidly to close to 50% of GDP before the financial crisis in 2008.

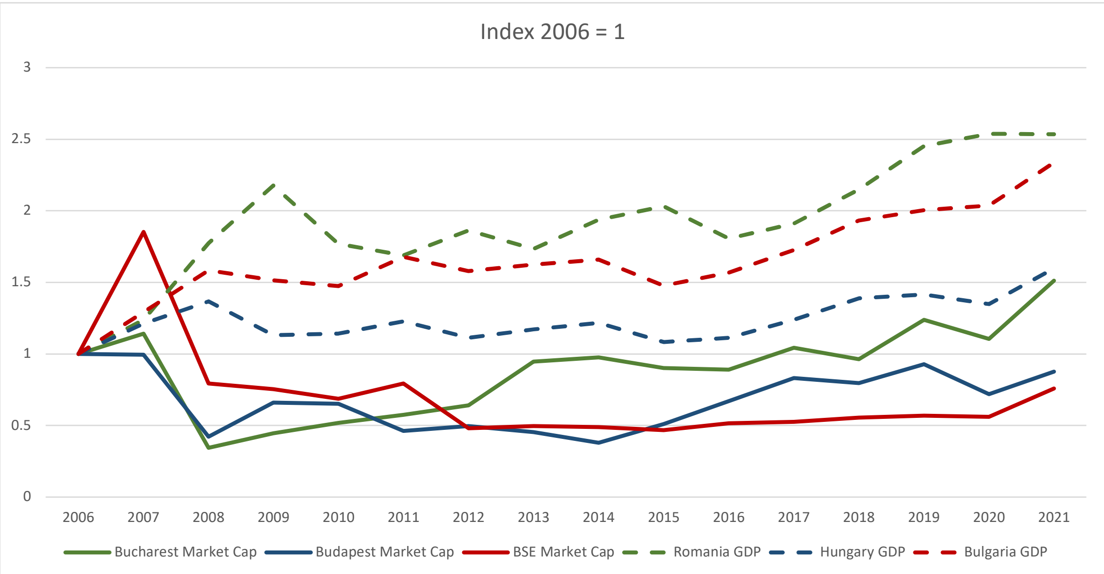
Following the financial crisis, however, the market fell heavily and activity has remained subdued since then. Compared with the benchmark countries, BSE's market capitalisation[10] rose higher before the 2008 crash but has stagnated since. However, in all three countries, market capitalisation recovered more slowly than GDP growth.

[8] P. Tchipev, Bulgarian Mass Privatisation Scheme. Implications on Corporate Governance (Journal of Economic Studies, 2003)

[9] J.B. Miller & S. Petranov, The First Wave of Mass Privatisation in Bulgaria and its Immediate Aftermath (Economics of Transition, February 2000), page 232

[10] Excluding the BaSE market: see discussion below

Figure 3.1 Market capitalisation and GDP



Market capitalisation source: FESE. Bulgaria market cap excludes BaSE market (see discussion below)
GDP source: IMF

Market Segments

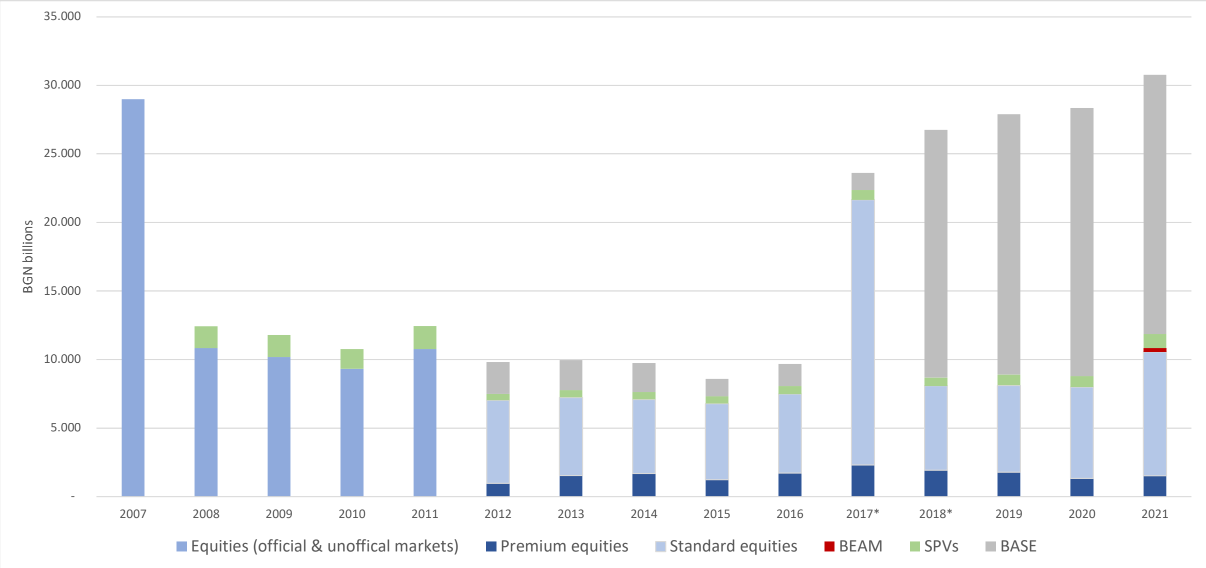
BSE now has the following market segments, similar to the market segments in the benchmark markets.

Table 3.1 Overview of stock exchange market segments

	BSE	Budapest SE	Bucharest SE (May 2022)
1 Equities *No of issues*	Premium Equities *7*	Prime Equities *21*	Premium tier *28*
2 Equities *No of issues*	Standard Equities *60*	Standard Equities *22*	Standard Tier *53*
Alternative market *No of issues*	BaSE (equities & SPVs) *169*	-	-
SPVs *No of issues*	Special Purpose Investment Companies *16*		
SME market *No of issues*	BEAM market (SME Growth Market) *9*	Xtend *9*	AeRO *279 equities* *~50 bonds*
Government securities *No of issues*	Government bonds *16*	Government bonds and Treasury Bills *32*	Government bonds *33*
Bonds *No of issues*	Corporate bonds *85*	Corporate bonds *162* Mortgage bonds *42*	Municipal bonds *34* Corporate bonds *28*
Exchange Traded Products *No of issues*	*19 + 3 warrants*		
Structured products *No of issues*	-	Turbo certificates and warrants *234*	Turbo certificates and warrants *198*
International segment *No of issues*	BSE International (MTF) *~200*	BETa Market *20*	MTS - International *15*

The market capitalisation of equities on BSE collapsed after the 2008 crash and has been slow to recover.

Figure 3.2 BSE market capitalisation by segment



Source: BSE Annual Statistics

The categorisation of equities changed between 2011 and 2012

* The changes in standard equities and the BaSE segment during 2017-8 were the result of a single large issuer (Capital Concept) joining the standard segment in 2017 and transferring to the BaSE segment in 2018.

The BaSE segment is the largest segment on BSE by market capitalisation and number of issues. However, it is a segment for equities or Special Purpose Vehicles that are either illiquid, inactive or in the course of liquidation. Securities only join the BaSE segment by being transferred from another segment when they meet the following criteria:

- Over the last 6 (six) months the average monthly turnover of transactions concluded on the Exchange has not been greater than BGN 4000 (four thousand);
- Over the last 6 (six) months the average monthly number of transactions concluded on the Exchange has not been greater than 5 (five);
- Over the last 12 (twelve) months the issuer has not disclosed within the periods specified in the applicable legislation, regulated information through a news agency or other media, which can ensure effective dissemination of regulated information to the public;
- A liquidation or bankruptcy procedure of the issuer has been started.

Issuers that are not compliant with disclosure requirements or are in the process of liquidation would not normally be listed and they are barely traded (an annual average of 17 trades per issue in 2021). It is gradually declining, with 10 issues (equities and REITs) delisted from the BaSE segment in 2020 and 13 in 2021 and no new issues[11]. The BaSE segment is therefore not included in the figures for market capitalisation and investable assets in this report. In the benchmark countries similar issues have been eliminated from the market at earlier times.

[11] Annual Management Report of the Bulgarian Stock Exchange Group in 2021, p. 18

The Premium Equities Segment has the highest standards for admission and is intended to carry the most prestige for issuers.

The Standard Equities Segment is the entry point for listing and the largest segment of the equity market.

The segment for Special Purpose Investment Vehicles currently consists mainly of Real Estate Investment Trusts (REITs), including one that invests in agricultural land. However, in 2021 a law was passed to allow securitisation vehicles. Given the time taken to prepare these companies, this has not yet had an impact on the market.

The BEAM market is the segment for growth companies and the newest BSE segment, following approval in December 2018, with the first issue (Biodit) in January 2021.

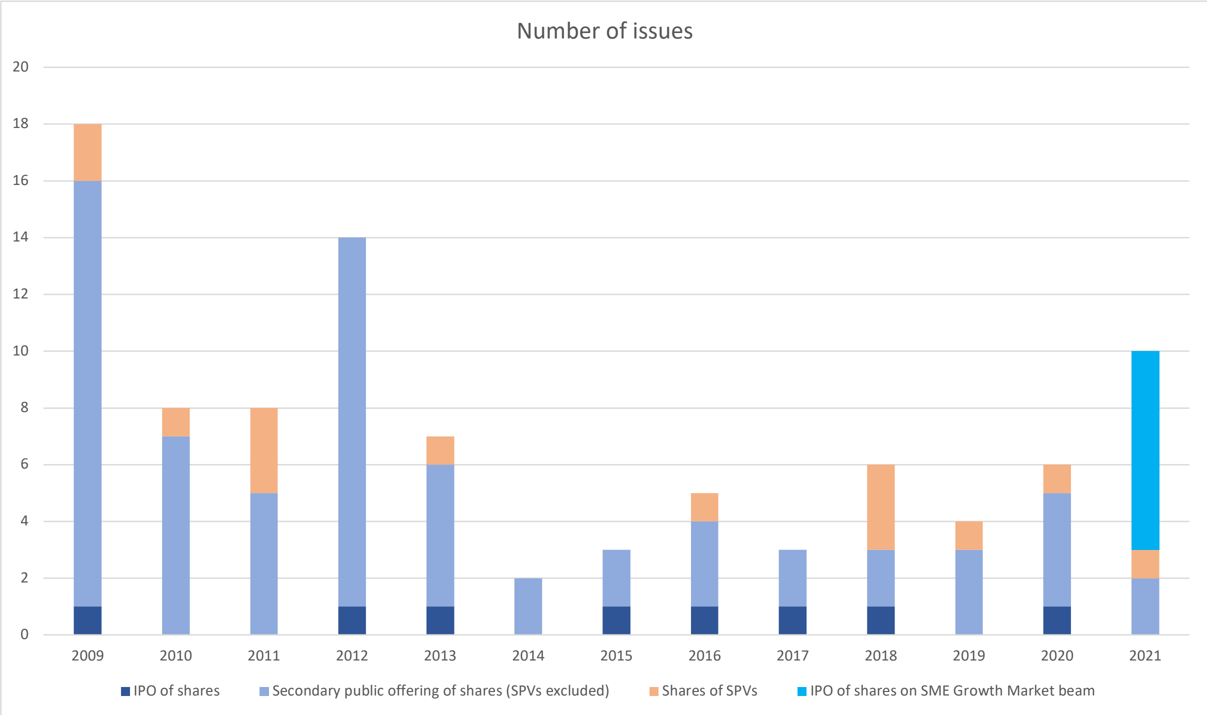
BSE International is an MTF that allows trading of a wide range of international securities using Tradegate, a market maker in Germany. It offers a wider range of securities for trading than the equivalent platforms in the benchmark countries.

BSE has a smaller segment for structured products than is found in Budapest and Bucharest. Some warrants are listed as part of the Exchange Traded Products segment. However, the market lacks the certificates issued by brokers and giving exposure to global indices as found in Hungary and Romania, even though the infrastructure is available. (Although these certificates have some of the qualities of derivatives they do not require a CCP.)

Raising capital: equity

As noted in Section 2, the Market Finance Ratio in Bulgaria is the lowest in the EU. This is attributed to a number of factors: the easy availability of EU funding for investment and low-cost bank finance, lack of understanding by businesses of the possibilities and the cost and complexity of raising capital market finance, as discussed further below. Equity issues in particular have fallen since 2008, a trend reversed recently by the introduction of the BEAM market, although the amounts raised are small.

Figure 3.3 Equity issues on BSE



Source: BSE website, Annual Statistics,

Equity finance: Main market

The amounts raised on the BSE equity markets have dropped sharply since the peak in 2007 after the global financial crisis. The introduction of BEAM has resulted in a flow of new issues, although the amounts are small.

The entry point for BSE's main market is the Standard segment.[12] The requirements for listing are similar to those in the benchmark countries, as they stem from the EU Prospectus regulation.

The main barriers to listing identified by market participants were the requirement for the prospectus to be approved by the FSC and the time taken, together with the post-listing requirements for issuers. Potential issuers are concerned that the lack of liquidity is likely to result in undervaluation. By comparison, bank finance is readily available.

In Bulgaria, the time between the decision to list on the main market and the start of trading consists of the time taken to prepare for listing and obtain FSC approval of the prospectus (up to 6 months). A recent issuer, who had the benefit of having expertise to prepare the documentation inside the company, took ten months to complete this process, but it can take up to a year [13].

Following the issue, there is a wait for the company to be entered on the companies register before official trading can start (1-1½ months). A condition for listing on the regulated market

[12] Normally companies enter the Premium segment after being transferred from the Standard segment, though in exceptional circumstances it is possible to enter the Premium segment directly.

[13] Interviews with market participants

is the prior registration of the new shares issued in a capital increase during the IPO process in the commercial registry and the registry of public companies with the FSC, which has a deadline of 2 days[14]. Otherwise, the listing itself is admitted within 5 business days while trading may start at the first business day following a period of 3 business days after the listing is admitted. Thus, there is a time span between the IPO and the start of secondary trading. It is possible that the registration of the capital increase from the IPO in the commercial registry is delayed to more than 1 month depending on how the IPO process is structured (whether the pre-emption rights of existing shareholders to subscribe for new shares are excluded and whether the IPO is made through an auction on the regulated market). The overall time may be long by international standards. For example, in Romania a company that has the financial results ready, audit and other requirements, can be listed, on average, in 6 months on the Regulated Market[15]. The requirement to wait for registration before official trading can start is unusual however, as in most other markets the issue is registered and entered in the depository so that trading and settlement can start immediately after listing[16].

However, in Bulgaria a large part of this time is taken by the process of approving the prospectus, which can take up to 6 months, during which time market conditions may change. The time for a prospectus to be approved is much shorter in other countries: in Germany an indicated timing is 6-8 weeks for the regulator to review and approve up to 3 drafts[17], similar in the UK[18], 2 months in Poland[19], 1-4 months in Ireland[20] and up to 1 month in Romania[21].

However, some of the delays in obtaining approval of the prospectus in Bulgaria can be attributed to the issuers (eg. the draft prospectus cannot be approved due to its incorrectness or incompleteness, and hence needs to be revised or updated), as well as the time needed to change or correct the prospectuses. (Bulgarian legislation requires the FSC to allow the issuers a period not shorter than 1 month for corrections in the prospectuses, however there is no obstacle for issuers to present the necessary information or documents in a shorter period than 1 month).

The need for correction of the submitted draft prospectuses may be attributed to lack of experience on the part of advisers, given the small number of IPOs that take place. Opportunities exist for potential issuers to speed up the approval process, for example by

[14] Art. 110, para 10 of the Public Offering of Securities Act

[15] Interview with the authors

[16] For example, for Hungary see https://www.globallegalinsights.com/practice-areas/initial-public-offerings-laws-and-regulations/hungary, Step III in Section 2

[17] https://www.globallegalinsights.com/practice-areas/initial-public-offerings-laws-and-regulations/germany#chaptercontent2 under “Due diligence and Prospectus” accessed on 17.06.2022

[18] https://www.lseg.com/areas-expertise/our-markets/london-stock-exchange/equities-markets/raising-equity-finance/main-market/listing-process accessed on 17.06.2022

[19] https://resourcehub.bakermckenzie.com/-/media/crossborder-listings-handbook/files/2020-update-8th-edition/warsawlisting-doc-and-proc.pdf accessed on 17.06.2022

[20] https://www.globallegalinsights.com/practice-areas/initial-public-offerings-laws-and-regulations/ireland accessed on 17.06.2022

[21] Interview

ensuring that all data in the draft prospectus is up to date, submission of a simplified prospectus, universal registration documents, or preparation of a securities note in cases where the registration document is already approved.

Being a listed company also carries continuing obligations, for example to meet disclosure requirements, publish accounts and comply with corporate governance requirements. Listed companies in Bulgaria are required to prepare quarterly financial notices (or a fully-fledged financial statement, if they so wish), which is more frequent than the semi-annual requirement in EU law (see Section 7). However, this greater frequency of reporting, supported by management calls, is valued by investors. It is argued that, given the low liquidity and depth of the market, the more frequent disclosure of financial information compensates for those market imperfections, providing greater transparency surrounding the financial condition of the issuers.

The recent European Single Electronic Format[22] requirements for issuers to prepare their annual reports in XHTML format was a challenge for most Bulgarian issuers. Prospective obligations under the European Sustainability Reporting Standards are also noted by issuers as an additional burden.

Some Bulgarian companies have made secondary listings on foreign markets (eg, Sopharma in Warsaw in 2011 and Allterco in Frankfurt in November 2021). Their experience has been that while the secondary listing helps with the profile of the company, trading liquidity flows back to Bulgaria.

Equity finance: BEAM market

Issuing on the BEAM market is more attractive, as it is quicker and simpler with no prospectus required for issues under the threshold. Unlike the other segments, BEAM is not a regulated market but is an MTF in the special category of SME Growth Market[23]. The Prospectus Regulation provides for simplified requirements for SMEs bringing their shares to BEAM. In Bulgaria, the documentation for admission to the BEAM market does not require approval by the FSC but is approved by the BEAM Market Management Committee. The operator of the BEAM market is required to send the admission document to FSC. This simplified process is one of the advantages of BEAM for companies.

In addition, the possible delay between issuance and the start of trading is not as problematic on BEAM as on the Main Market. When the IPO is made through an auction on the BEAM market the issuer is allowed to request the issuance of rights over the shares subscribed in the IPO and secondary trading in these rights may take place between the end of the IPO auction on the BEAM market and the date of the issuance of the new shares. When the capital increase (and the new shares) is registered in the commercial registry the trading in these rights is terminated and the issues is listed on the BEAM market.

Until 2022 the ceiling for issuance on BEAM was set at €3mn, but legislation has been passed to raise this to the maximum permitted under the Prospectus Regulation, €8mn.

[22] https://www.esma.europa.eu/policy-activities/corporate-disclosure/european-single-electronic-format

[23] Under Article 33 of MiFID II, which together with the relevant delegated regulations, defines the criteria for companies to identify as SMEs

Table 3.2 Ceiling for issuance with simplified documentation	
	Ceiling (EUR mns)
Estonia	8
Latvia	8
Lithuania	8
Croatia	8 (raised in April 2021)
Bulgaria	3 (being raised to 8)
Poland	2.5
Romania	1
Slovakia	1
Czechia	1
Hungary	1

Source: ESMA, National thresholds below which the obligation to publish a prospectus does not apply, October 2020, data for Croatia and Bulgaria updated by authors

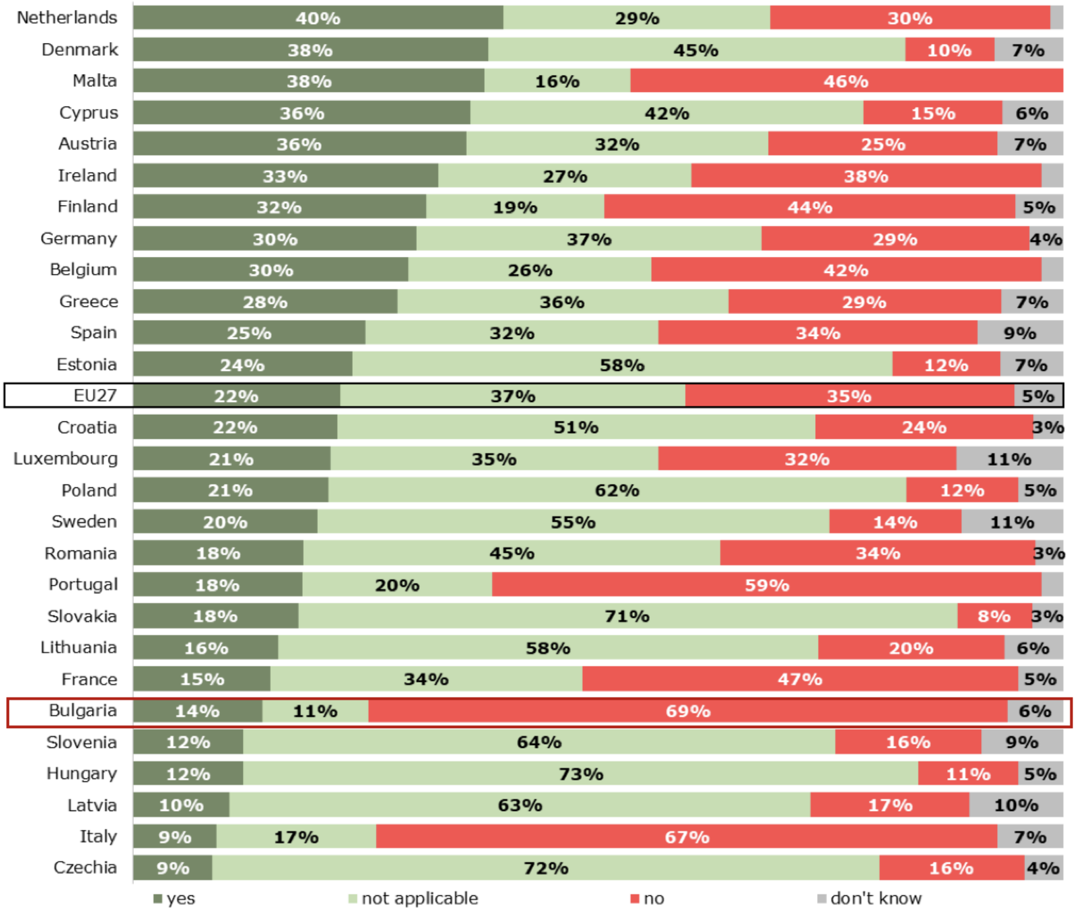
Hungary and Romania both have SME growth markets similar to BEAM – Xtend in Hungary and AeRO in Romania. Of these AeRO is the largest.

The AeRO market was formed in February 2015 when the previous Rasdaq market, the venue for many of the privatisation stocks, was closed. The initial companies listed on AeRO were privatisation stocks that qualified to transfer from Rasdaq. More recently it has attracted new issues as an SME market – 45 new equity issues and 47 new bond issues. Many issuers started by issuing a bond and later issued equity. The annual "Made in Romania" competition has been important in raising its profile and attracting issuers. It is not currently an SME Growth Market but is planning to adopt this status. Romania has not yet raised the ceiling for issues without a prospectus, but most issues qualify as private placements, avoiding the need for a prospectus by this route. Different from Bulgaria and Hungary, roughly as much finance was raised on AeRO through bond issuance as through equity issuance. Although some companies listed on AeRO have grown significantly none has graduated to the Main Market[24].

Lack of understanding by businesses is identified as a barrier. Indeed, international comparisons showed Bulgarian SMEs had the lowest level of confidence in the EU in their ability to talk to potential investors, with 69% saying they lacked confidence (compared with only 26% who lacked confidence talking to banks). BSE is helping to develop future issuers through the BEAM up lab programme, which identifies small companies with the potential to raise capital market finance and provide support.

[24] Capital Market Review of Romania: Towards a National Strategy (OECD, 2022)

Figure 3.4 Confidence in talking with equity investors and venture capital enterprises about financing and obtaining the desired results for SMEs in the EU27 in 2021, by country

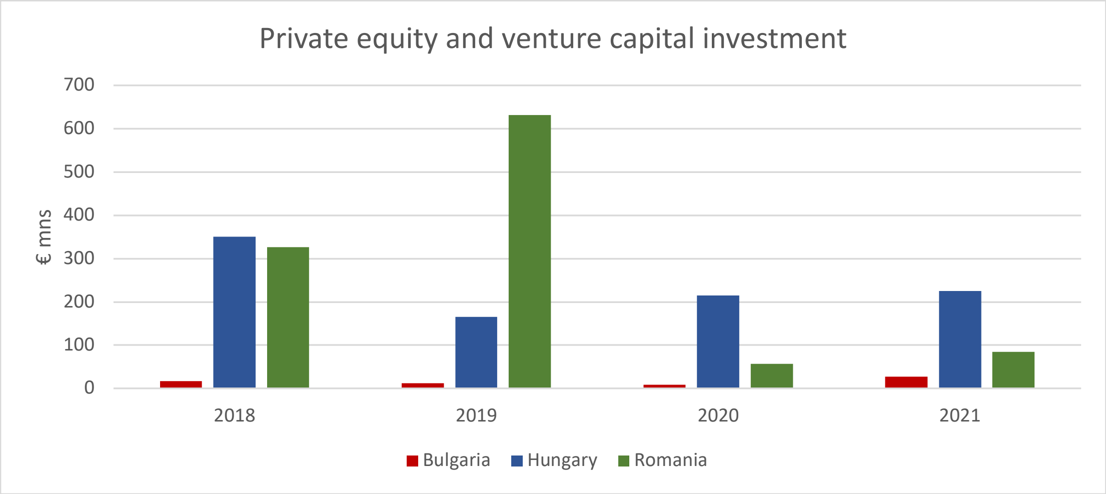


Source: Survey on the Access to Finance of Enterprises, Analytical Report 2021 (European Commission), figure 108, page 117

Private equity/venture capital finance

Venture Capital and Private Equity are valuable sources of finance for companies as they grow, as they not only provide investment but usually also support for management. PE/VC funds may also exit their investments through a listing. Bulgaria has attracted less PE/VC investment than the benchmark countries.

Figure 3.5 Private equity and venture capital investment



Source: 2021 Central and Eastern Europe Private Equity Statistics (InvestEurope)

Consistent with the less developed state of Bulgarian companies, the investment has been at an earlier stage of the growth process, though this means the likely progression to an exit through listing is further off:

Table 3.3 funds raised through venture capital investment

€ millions, 2021	Bulgaria	Hungary	Romania
Early stage venture capital	26.7	119.7	31.5
Later stage investment (growth, turnaround, buy-out)	-	105.6	53.4

Source: 2021 Central and Eastern Europe Private Equity Statistics (InvestEurope)

The local venture capital funds are quite active in comparison with the benchmarking countries and the rapidly developing start-up ecosystem in Bulgaria is among the factors for the success of the SME Growth market BEAM. Most of the successful IPOs on BEAM are companies that have venture capital investors. In the last year at least three new funds successfully completed their closings rounds: BlackPeak Capital (EUR 126mn), LAUNCHub Ventures (EUR 74mn), Eleven Ventures (EUR 60mn). In addition, there are a couple of funds which operate mainly with public funding through the different EU funds[25]. Finally, in 2022 the first Bulgarian unicorn emerged, the fintech company Payhawk.

However, venture capital funds active in Bulgaria face a number of hurdles in attracting more local institutional investors as Limited Partners. Pension fund investment in a VC fund is regulated in the Social Insurance code. Some of the requirements for pension fund investment impede the investment in alternative investment fund in practice. The requirement to charge VAT on management fees for private sector investors results in the VC funds being registered outside Bulgaria[26].

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[25] https://www.fmfib.bg/en/page/9-financial-instruments

[26] Source: interviews with market participants

Issues facing equity markets

Many of the issues facing the equity market are the result of companies privatised during the mass privatisation programme remaining listed at BSE[27].

Dormant accounts

A large number of individuals acquired relatively small shareholdings during the mass privatisation process and have not subsequently been active as shareholders. Many have changed address and cannot be contacted and in some cases may have died, without their inheritors being aware of the shareholdings. In many cases the low value of the shares means that it would not be economic to sell, as the transaction costs exceed the proceeds. This is especially true of transferring holdings through the inheritance procedure.

As the majority of individuals transferred their vouchers to privatisation funds, these funds, now transformed to holding companies and listed in the Standard Equities segment, are the most affected by dormant accounts. An unpublished study in 2017[28] found that dormant accounts were a tiny proportion of shareholders in other listed companies and were insignificant for companies in the Premium Equities segment. However, there were four listed holding companies where dormant accounts were estimated to be between 18% and 60% of the shareholder base. Combined with limited free float, the effect is that the shares available for investment are reduced to as little as 20% of the total. The result is that liquidity in the market is reduced and the majority owners of these companies are able to make decisions with only a small minority of shareholders able to take an active part in the governance.

Proposals to resolve the issue of dormant accounts have been made, but none has so far obtained the support of all the parties involved and been assessed as compatible with the law.

Corporate governance

The allocation of shares to managers at privatisation and the subsequent acquisition of large holdings by privatisation funds has resulted in companies having a core of dominant shareholders. A frequent comment during interviews was that these companies do not operate with the transparency and attitude towards investors and the general public required of publicly listed companies. Investor protection is key to increasing confidence in the capital market. Increasing the protection of minority shareholders and the transparency of public companies are key factors in improving the investment environment and the capital market. .

A corporate governance code was first published in Bulgaria in 2006, based on the OECD Principles of Corporate Governance and adapted for the Bulgarian legal framework. This was accompanied by a self-assessment scorecard based on the "comply or explain" approach. Shortly afterwards the National Corporate Governance Council (NCGC)[29] was established as

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[27] In Romania, when the Rasdaq market closed in 2015, of the 5,000 privatised companies originally listed, five moved to the regulated market and 271 to the newly-formed AeRO market with the reminder withdrawn from trading. They have continued to delist from AeRO.

Sources: https://www.romaniajournal.ro/business/after-20-years-rasdaq-market-disappears-311-companies-were-transferred-to-the-regulated-market/ Accessed 13.08.2022; and Capital Market Review of Romania (OECD, 2022), page 119

[28] Prepared for EBRD

[29] https://nkku.bg/en/

an independent NGO. The Code was revised in 2016 in line with revised OECD Principles. The Code was updated again in July 2021 to bring it in line with principles of environmental protection, human rights protection, fair labour conditions and good governance. This revision was approved by FSC on 20 January 2022.

However, in spite of the thought leadership provided by the NCGC, dissemination of the Code has not kept pace with the work on its development. Under the Law on the Public Offering of Securities[30], companies are required to include a corporate governance declaration in their annual reports with information on how they comply with the FSC-approved Code or another one. However, it is hard to verify the accuracy of the disclosure. For example, public companies are required to have at least one third of the board made up of independent directors, but disclosure on this matter is limited; most of the companies declare that they comply with this requirement, without indicating who the independent directors are.[31]. At the BSE, companies on the Premium Equities segment must declare that they agree to abide by the principles of the Corporate Governance Code, but this does not apply to companies in the Standard Equities segment or BEAM market.

There is no entity responsible for providing training in corporate governance or developing the skills of directors. In Romania, there is an Independent Directors Association[32] to support good governance and best practice, but no equivalent in Hungary.

[30] Article 100n, para 7

[31] Corporate Governance in Transition Economies: Bulgaria Country Report, EBRD, December 2017

[32] https://www.administratorindependent.ro/en

The Baltic Awards

The Nasdaq Baltic Awards[33] recognise transparency, corporate governance and investor relations at listed companies. They have been awarded for 10 years, the criteria have been raised over time and the coverage extended to include bond issuers and companies on First North, the SME market. Awards are currently made every two years.

For listed companies the criteria cover:

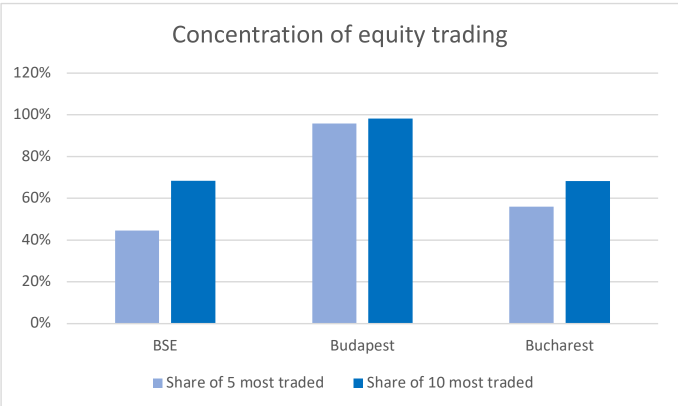
- Detailed assessment of the quality of reporting and disclosure in the Annual Report
- Quality of periodic reporting
- Quality of disclosure about corporate governance
- Content, accuracy and timeliness of information disclosures
- Quality and accessibility of investor relations information

Source: communication from Nasdaq Baltic Awards

Small size of issues

The absence of large banks in the mass privatisation programme and the removal of Bulgarian Telecom from the market has left the market without benchmark issuers, in the way that OTP Bank is in the Hungarian market. As a result, trading is less concentrated than in the benchmark countries.

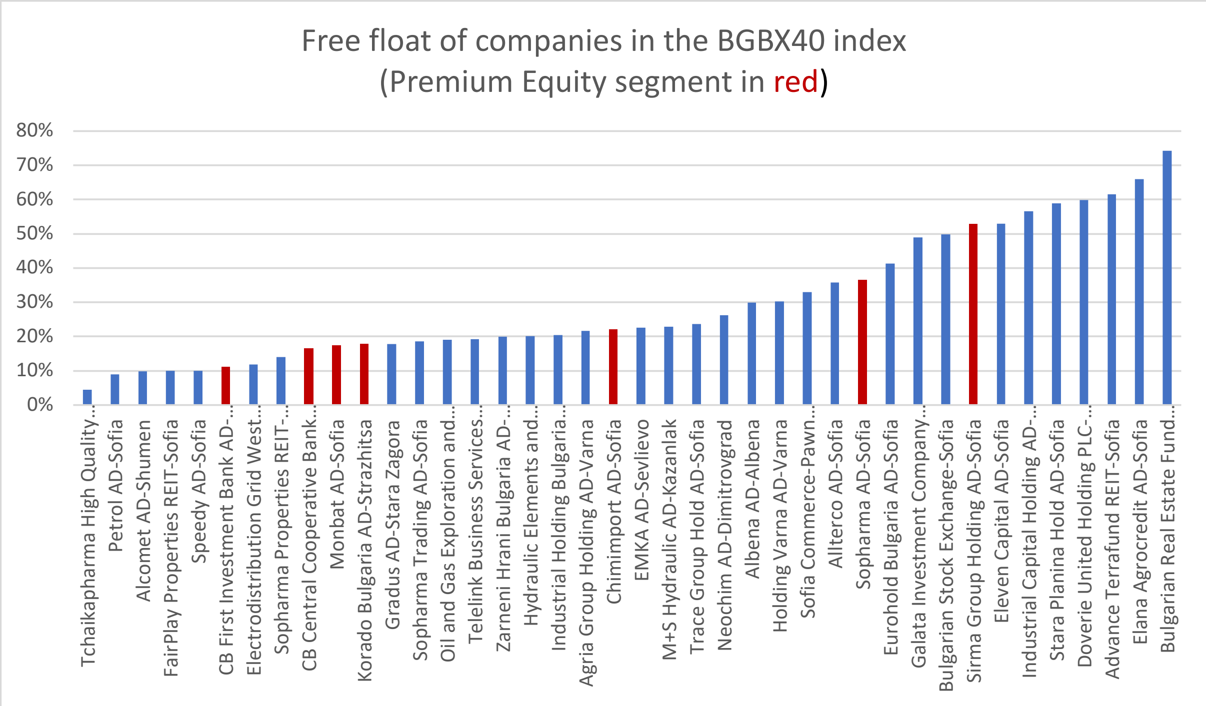
Figure 3.6 concentration of equity trading



In spite of the listing requirements, many companies have very low levels of free float (meaning shares that may be available to be traded on the market as opposed to the holdings of long-term investors).

[33] https://nba.nasdaqbaltic.com/en

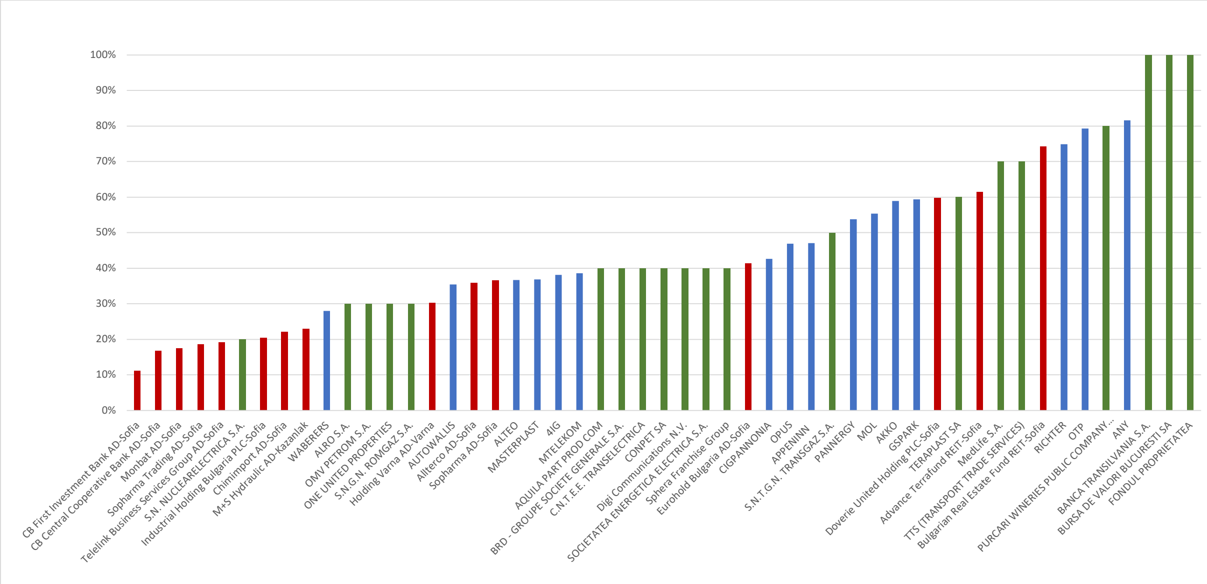
Figure 3.7 comparison of free float



Source: BSE website, accessed 15.06.2022

Comparing free float across the main indices of the benchmark countries, Bulgaria dominates the lower end of the scale (Figure 3.9). However, note that the definitions of free float vary between countries: the definition in Bulgaria is more restrictive as it only counts the number of shares held by shareholders owning not more than 5%, while in Romania it includes any holding of up to 30% owned by insurance companies, pension funds and investment funds and

Figure 3.8 Free float of components of major market indices (SOFIX, BUX and BET)



Key: Bulgaria, Hungary, Romania

Sources:

BSE website, accessed 15.06.2022..

Budapest Stock Exchange, data provided to authors

BVB website, accessed on 10.07.2022. Rounded to the nearest 10%.

Once the limited free float is taken into account, available investments are too small to attract international or even domestic institutional investors.

Table 3.4 Largest listed companies by country

	Total capitalisation (EUR mns)	Free float (EUR mns)
Bulgaria		
Tchaikapharma	651	30
Sopharma	303	104
Hungary[34]		
OTP	11,620	9,215
MOL Group	5,162	2,857
Romania[35]		
OMV Petrom	5,318	1,595
SNGN Romgaz	3,509	1,053

[34] End-December 2021, BÉT statistics

[35] End-May 2022, BVB Monthly Report May 2022

Raising capital: Debt finance

Debt issuers mainly fall into two categories:

- Government securities
- Bonds from listed companies and REITs, and unlisted companies

Government securities

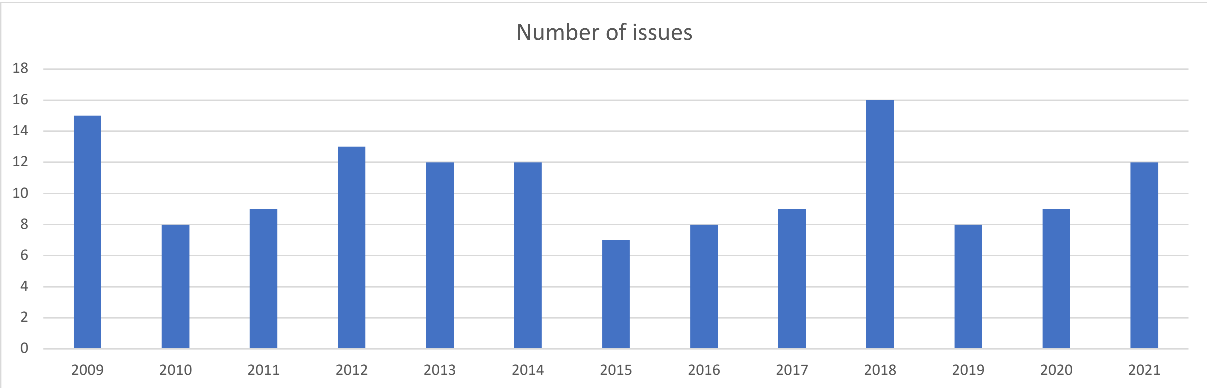
Government bond issuance is limited both because Bulgaria has a relatively low level of government debt and because twice as much is funded outside Bulgaria through Eurobond issuance as is funded domestically: outstanding domestic bonds amounted to BGN8.5bn at end-2021, compared with BGN17.7bn issued internationally[36].

Holders of government securities are predominantly banks. Less than 20% of the total is held by non-bank financial institutions and negligible amounts by individuals and non-residents.

Non-government debt

There has been a steady flow of debt issued by non-governmental issuers.

Figure 3.9 Non-governmental bond issues on BSE



Source: BSE website, Annual Statistics,

However, the issues are considerably smaller than in the benchmark countries (see Table 3.6), with the result that liquidity is virtually non-existent, averaging 2 trades per day for the *entire* segment in 2021[37]. The high average trade ticket size suggests that financial institutions and institutions rather than private investors are trading.

[36] Central Government Debt and Guarantees, Monthly Bulletin of the Ministry of Finance, April 2022

[37] BSE website, Annual Statistics,

Table 3.5 Non-governmental bond issues outstanding by exchange

	BSE	Hungary	Romania
Corporate bonds (main market)			
Number	85	80	28
Denominated in			
Local currency (EUR mns)	*379*	*2,713*	*1,422*
EUR (mns)	*814*	*1,028*	*1,755*
Average size of issue (EUR mns)	*14*	*47*	*113*
Corporate bonds (SME market)			
Number	0	0	47
Denominated in			
Local currency (EUR mns)			*45*
EUR (mns)			*58*
Mortgage bonds			
Number	0	44	0
Denominated in			
Local currency (EUR mns)		*4,636*	
EUR (mns)		*0*	
Municipal bonds			
Number	0	0	34
Denominated in			
Local currency (EUR mns)			*549*
EUR (mns)			*0*

Sources:
BSE website, Listed Instruments, accessed 11.8.2022
Budapest Stock Exchange, Product List, downloaded 11.8.2022
Bucharest Stock Exchange, Monthly Bulletin, July 2022. Amounts are total amount issued

Issues in Hungary are dominated by a few large financial institutions: OTP Bank, MKB Bank and MFB (Hungarian Development Bank), Issuers in Romania are more varied. In Bulgaria, most of the corporate bonds are issued by financial (including holding) or real estate companies.

Table 3.6 Non-governmental bond issues outstanding

Sector	Number of issues	Nominal value (BGN mns)	Nominal value (EUR mns)
Finance and insurance	47	353	749
Real estate	10	132	23
Other	28	273	43

Source: BSE website, Listed Instruments, accessed 11.8.2022

Three categories of bond issuance are present in the benchmark countries but not in Bulgaria:

- In Romania there are 34 issues of municipal bonds listed on the stock exchange, but in Bulgaria municipalities do not use the local market for capital finance[38]. In the interviews, investors expressed scepticism about the financial ability of municipalities to undertake bond issuance.

- In Romania there are 47 bonds listed on the AeRO market. These are smaller in size (average issue size of €1.5mn) than on the main market. In some cases, a bond issue has provided the entry point to capital markets for an SME, which has later returned with an equity issue.

- In Hungary there are 44 mortgage bonds listed but none in Bulgaria. Since 2015 banks have been legally obliged to issue mortgage bonds or refinance their mortgage loans by a mortgage bank for at least 25% of their total mortgage loan portfolio. Banks must continuously calculate a so-called mortgage loan financing compliance indicator and that indicator has to be always over 25%. Mortgage bonds have to be listed on the stock exchange and are bought by asset management companies and (from 2015-8) the National Bank of Hungary.

  Currently banks in Bulgaria are sufficiently liquid that they do not need to raise funds in this form or through other forms of securitisation. However, the recent introduction of the Covered Bonds Act (see below) provides a vehicle for banks to use when they wish to do so.

Issues facing bond markets

A number of factors can be identified that have held back the development of a more active market for corporate bonds.

- The limitations of the domestic government bond market affect other categories of bond issuance. The corporate bond market is not more developed because the benchmark government bonds are illiquid and do not have firm prices. As a result, the yield curve is incomplete. There have not yet been any bond issues on the BEAM market.

- Issuers prefer to turn to bank finance because of their lack of knowledge with regards to the process and requirements of securities issuance and listing, their perception of the time and costs of the issuance process and burdensome post-listing-requirement.

- As in the equity market, there is an absence of large issuers which would establish benchmarks for the market. This gap is particularly important, given the limited role of the government bond market.

- In the past investors have complained of long delays in receiving payment when issuers have defaulted. However, improvements have been made to the regime of public offerings and listing of corporate bonds in 2017 in particular to the powers, eligibility requirements and liability of security trustees who are appointed to manage security rights of bondholders

[38] However, in some cases they have issued Eurobonds: Sofia in 1999 and Kyustendil in 2011

over collateral in case of secured bonds, as well as to the regime of bondholders meetings which allowed collective action based on majority vote.

The National Assembly adopted the Covered Bonds Act in March 2022 followed in July by Bulgarian National Bank Ordinance No. 42 on the terms and conditions for issuing covered bonds. This new law will regulate an entirely new market in the country and will address the lack of a functioning market for covered bonds. With the adoption of the Ordinance, the work on creating a comprehensive legal framework for the issuance of covered bonds by banks in the country in accordance with EU directives and acts has been completed. The ordinance determines the requirements for calculating the amount of liabilities on covered bonds and coverage assets, periodic stress tests of coverage assets, documents required in connection with the selection of a coverage observer, as well as insurance of the coverage observer.

Overview of the Baltic markets

The three Baltic countries (Estonia, Latvia and Lithuania) in aggregate have a similar population to Bulgaria (6 million vs 6.9 million in Bulgaria[39]) but higher GDP per capita (average of €14,600 vs €6,690 in Bulgaria[40]). The exchanges see their future in the growth of small companies and the SME market, First North, is the basis for this. Its growth is built on celebrating success stories which attract new investors and new listings. The Baltic Awards (see box) are part of the process of celebrating success. The markets are considered to have been successful in building an environment with local retail investors and VC funds that supports capital market growth.

Several features in the development of these markets are of interest as they differ from Bulgaria.

- The three national markets traded local autonomy in order to form a Baltic and regional (Nordic) market, owned by a global exchange (Nasdaq). As a result, they have benefited from the exchange of know-how and technology with the larger markets. All the exchange systems are outsourced to Nasdaq, giving the exchanges access to modern technology and the economies of scale achieved by a large exchange group.
- There is no government involvement in the ownership or management of the exchanges, except as regulatory authorities.
- There is a single CSD operating across the three Baltic countries, providing a single entry point for local and international investors.
- Adoption of the euro across the region (Estonia in 2011, Latvia in 2014, Lithuania in 2015) was critical in enabling investors to view the Baltic markets as a whole.
- There are some large companies in the market: four with market capitalisation over €1 billion, of which two are the result of privatisation (Ignitis and Telia Lietuva).
- Raising standards of corporate governance has been key to building the market. When higher listing standards were adopted in the early 2000s, companies originating in the mass privatisation process of the 1990s were given the option of meeting the higher standards or delisting. Many delisted, meaning the market was smaller but committed to meeting listing standards.
- The Baltic exchanges established the Baltic Institute of Corporate Governance[41] in 2009 to raise standards, provide education and develop policy on corporate governance. Corporate governance is among the criteria used in assessing the Baltic Awards.
- Part of the strategy has been to build a retail investor base through education and offering tax benefits on investing through an investment account.
- Extension of the EBRD's Listed SME Support Programme to the Baltics, providing free research on listed SMEs, is helpful in supporting investor interest.

Source: interviews with management

[39] End-2021. Source: Eurostat

[40] End-2021. Source: Eurostat

[41] https://www.bicg.eu/home

4 Investors

Introductory overview and summary

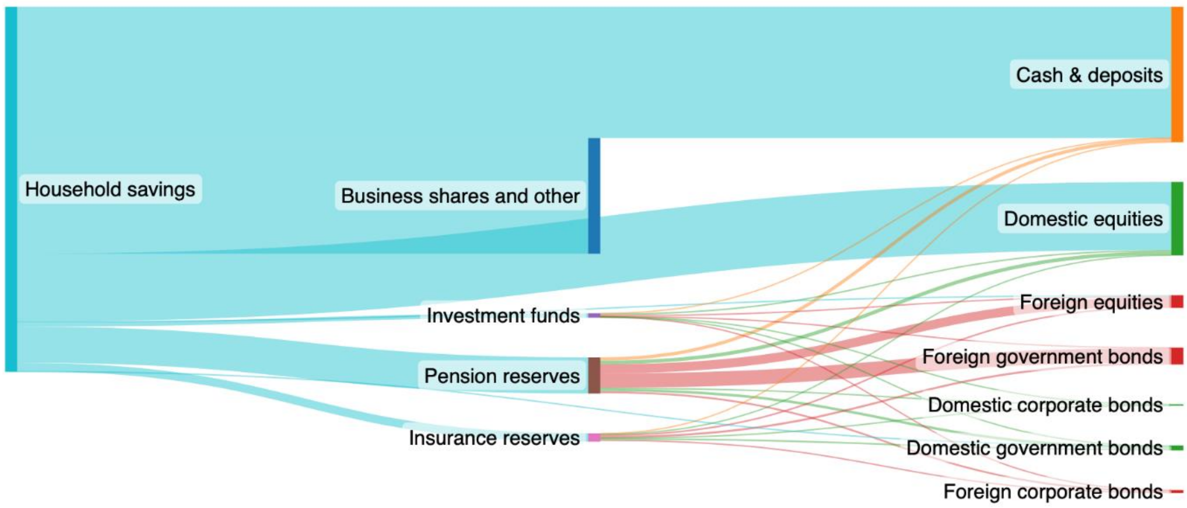
Households have a full range of options available for investment. There are three institutional pillars (mutual funds, pension funds and insurance products) to place savings in the longer run and single securities both on the local stock exchange and on foreign markets. Investment schemes are available through different distribution channels adjusted to the financial needs, investment size and cost preferences of households. However, the proportion of direct investment in securities, such as bonds and shares, in household saving portfolios is negligible. Cost of investments, the medium level of financial literacy and overall trust in capital market and financial intermediary system obviously influence the investment attitude and transaction habits of private investors.

While asset accumulation in the local pension funds is robust and insurance reserves form a relatively lower share of household savings, the local mutual fund industry shows the largest gap compared to its peers. Assets of all the three pillars are heavily invested in foreign securities, which clearly differs from the comparable regional markets and points out the weakness of the Bulgarian local capital market.

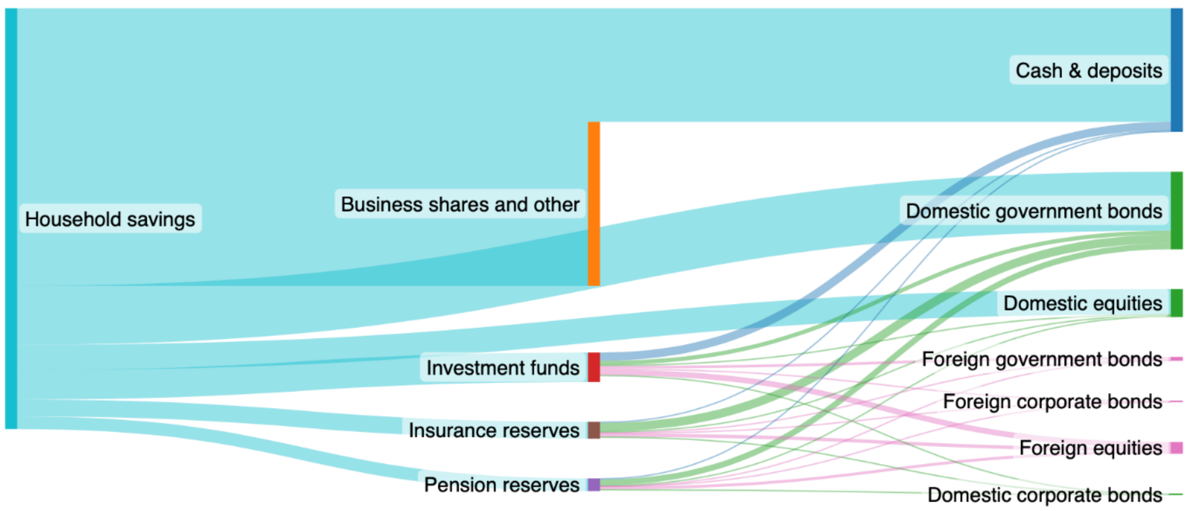
Figure 4.1 (next page) provides an overview of the destination of household savings in Bulgaria and Hungary. (Comparable data is not available for Romania.)

Figure 4.1 Overview of flow of household savings

Bulgaria



Hungary



Source: calculations by authors

Private investors

Intermediary system and saving options – buy side participants, distribution channels, eligible investment vehicles

With regards to investment options and the access to them, Bulgaria is fairly in line with its regional peers both in terms of the eligible savings and investment vehicles and the distribution channels of the local financial intermediary system. The following matrix shows the most important categories of financial and capital market saving vehicles and their availability through the main distribution channels:

Figure 4.2 Distribution channels for investment products in Bulgaria

Distribution channels	SINGLE SECURITIES	MUTUAL FUNDS	PENSION FUNDS	INSURANCE PRODUCTS
Banks	YES	YES	YES	YES
Brokerage firms	YES	YES	NO	NO
Fund managers	NO	YES	NO	NO
Asset / Wealth managers	YES	YES	NO	NO
Pension companies	NO	NO	YES	NO
Insurance companies	NO	NO	NO	YES
Social insurance agents	NO	NO	YES	NO
Insurance brokers	NO	NO	NO	YES

Source: interviews with market participants

Existence and development stage of distribution channels on the local capital market cannot be considered as bottleneck as both single securities and collective investment vehicles are accessible through different kind of distributors. Banks and brokerage firms are the universal shops in distribution of saving products covering all types of securities type saving vehicles. However, even if banks have the largest number of distribution points, direct investment in securities is available only at a limited number of branches. Furthermore, they usually do not provide platforms for online trading on the local stock exchange to their clients unlike the larger brokerage companies. These limitations result in the fact that banks are usually not among the five most active stock exchange members.

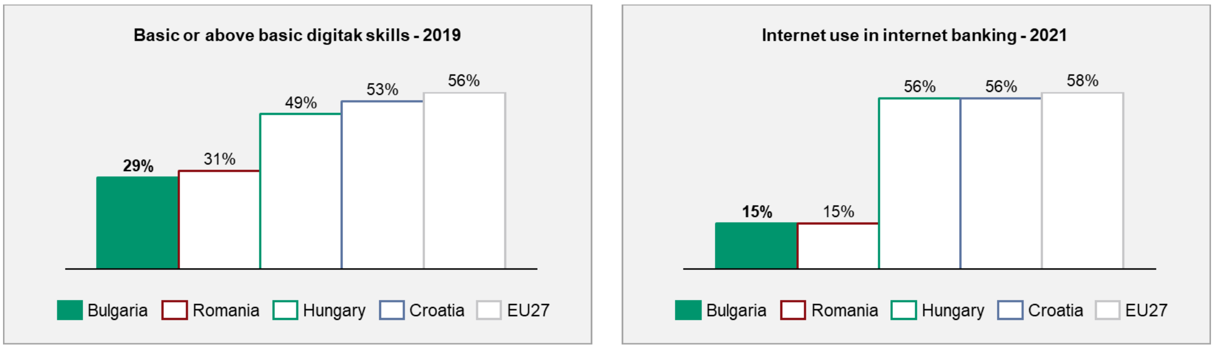
Securities accounts of investors are kept by these two participants, and in addition by the fund management companies owning primarily investors of local mutual funds. That initial set up of securities account keeping in mutual fund distribution resulted in a costly triplication on the level of the end-to-end distribution process.

With regards to the physical distribution points, commercial banks provide the widest coverage. After the turn-around of the systematic financial crises 2008 – 2010 the indicator "Number of branches per 100,000 adults" Bulgaria decreased from the 92 level significantly but based on the figure in 2019 the country still has the highest ratio in EU with 58.[42] In comparison Hungary (23) and Romania (32) represent clearly lower figures.

[42] Federal Reserve Economic Data, as of in 2019

In addition to physical distribution, digitisation can drive investors towards digital channels and that can help mobilizing savings. According to a pre-COVID overview, with regards to level of digital skills Bulgaria was ranked below the EU average and also below the regional markets. More importantly, that the gap is much larger in the use of internet banking, where Bulgaria and Romania are far the worst performing countries on the EU27 landscape but also far below the regional average. That particularly points out the low acceptance of the mass retail clients of banks to use digital channels (internet and mobile banking) to invest in capital markets while clients of investment firms tipically use digital platforms offered by their service provider for remote on-boarding and investments.

Figure 4.3



Source: Eurostat;,https://ec.europa.eu/eurostat/databrowser/view/ISOC_SK_DSKL_I/default/table?lang=en
Source: Eurostat; https://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=isoc_bde15cbc&lang=en

While the years mainly affected by COVID may have lifted up Bulgaria, there must still be room for further improvement and a better usage of digital channels in financial transactions. Smoother, cheaper and faster on-line transactions can attract the younger generation to the local capital market and to diversify their savings. At the same time, investors' overall trust in the financial intermediary system and the service providers remain relevant for their willingness to invest.

Financial literacy

Surveys on financial literacy set Bulgaria in the midfield in the region (see table with OECD data below).

MOF has set up a working group to improve financial literacy in Bulgaria, involving 40 institutions to help people to acquire the minimally necessary financial knowledge. A positive feature is that capital markets participants are also represented in the MOF working group on financial literacy and contribute to the work. Another positive fact is that the capital markets representatives have developed and implemented in the recent years many initiatives and activities that aim to develop the financial literacy in the country in this field.

The government and market participants contributed to the adoption and implementation of a National Strategy on Financial Literacy and an Action Plan for the period 2021-2025. The strategy and the action plan aim to improve also the financial literacy in the area of capital markets.

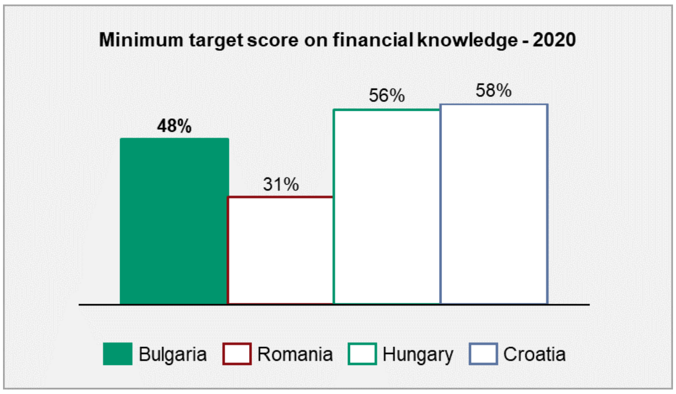
In 2021, the FSC launched the digital campaign #Invest safely, aimed at protecting consumers from unlicensed investment firms. The campaign was launched with a dedicated website, available in both Bulgarian and English. #Invest safely was also rolled out on social media YouTube and LinkedIn with attractive visual content created with own resources.

The FSC developed the campaign in association with the Bulgarian Fintech Association (BFA) to support the development of innovative solutions in the non-banking financial sector in Bulgaria:

- development of financial literacy of users of financial services and investors, using the participation of experts from the FSC in master's programs and training innovation camps with students;
- participation of representatives of the regulator in local and international BFA webinars;
- regular meetings with fintech companies in order to provide feedback on the assessment of possible risks for both the market and consumers, as well as potential actions and measures, with a view to minimizing them in order to derive maximum benefits from the growing interest in financial innovative products and/or technologies at compliance with regulatory requirements;
- promoting and encouraging the use of the already operational Innovation Hub, which improves quick and easy access to information for start-ups and on issues and cases of a regulatory and legal nature.

Such initiatives can positively influence the general financial literacy in Bulgaria and that can reflect also in the minimum target score on financial knowledge which is clearly ahead of Romania but still lags behind Hungary or Croatia:

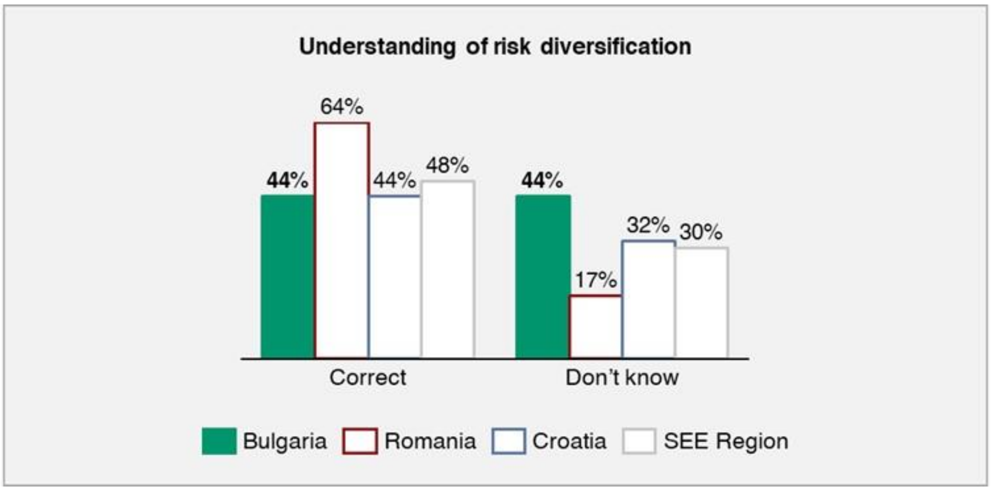
Figure 4.4



Source: OECD (2020) International Survey of Adult Financial Literacy

However, two other results from the regional OECD study show that knowledge about capital markets and investment have to be further improved. Firstly, Bulgaria is still behind the regional comparative markets as well as the regional average concerning understanding of risk diversification:

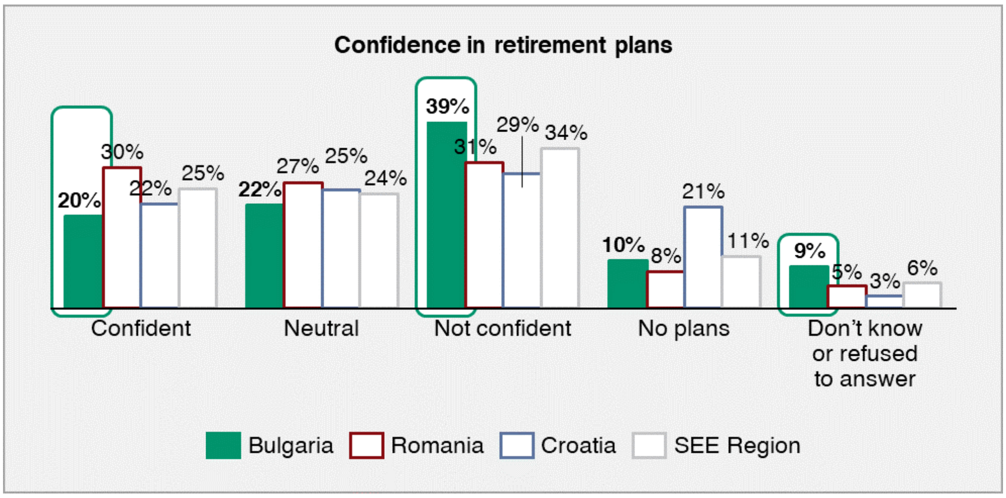
Figure 4.5



Source: OECD (2020), Financial Literacy of Adults in South East Europe

Furthermore, confidence in retirement planning and pension fund savings also points out the deficiency of financial knowledge which is particularly remarkable in a segment which works well and demonstrates a solid asset growth even in regional comparison:

Figure 4.6



Source: OECD (2020), Financial Literacy of Adults in South East Europe

Breakdown of household savings

Among the benchmark countries, Bulgaria has the second highest level of household savings per capita which is clearly behind the Hungarian and fairly above the Romanian level. On the contrary, GDP Romania has 28% higher GDP per capita than Bulgaria. This is in part explained by the fact that Romania is much more dependent on inflows of personal remittances - inbound personal remittances amounted to 3.1% of the GDP in Romania vs 1.4% in Bulgaria[43] - and the related high level of cash holding outside the financial intermediary system:

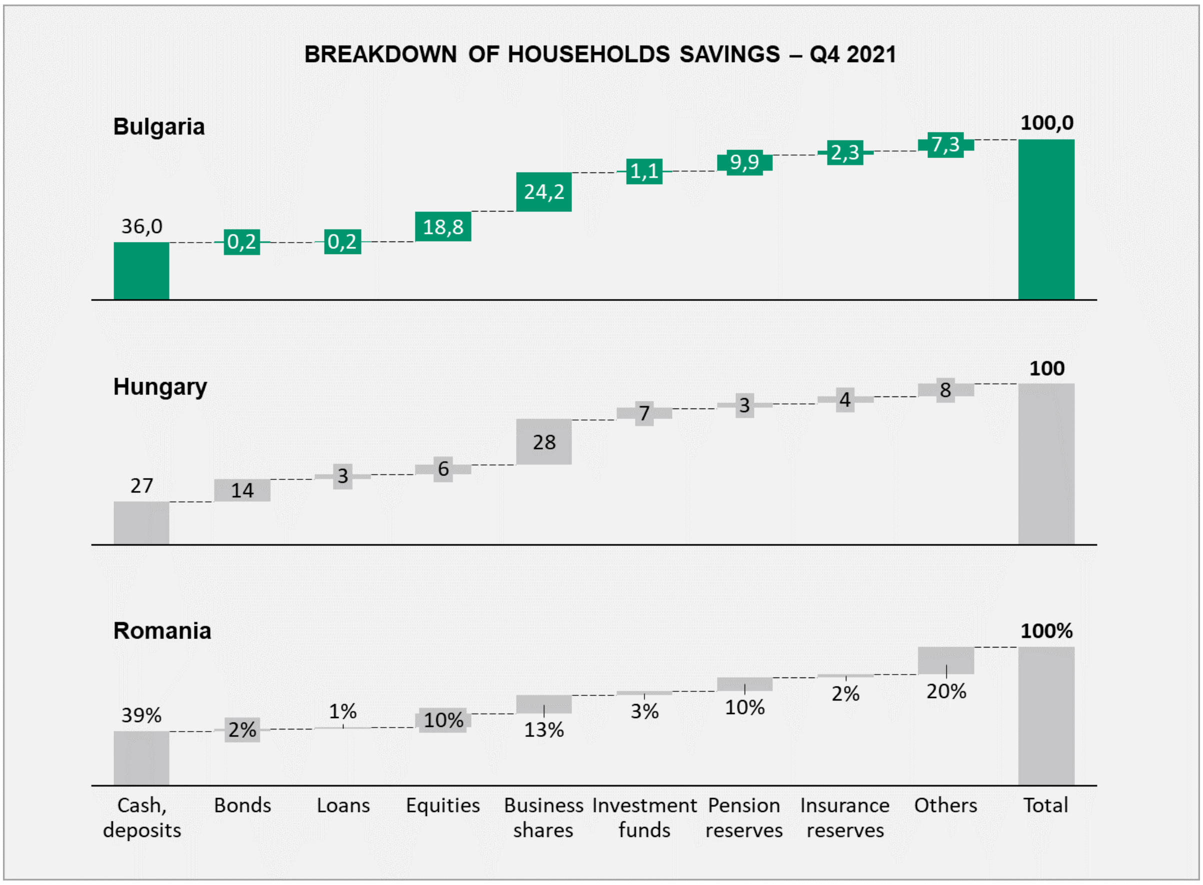
Table 4.1 Household savings and GDP – Q4 2021

	Bulgaria	Hungary	Romania
Household savings total (EUR bn)	99,8	206,6	180,0
Population (mn)	6,9	9,7	19,2
Household savings per capita (EUR)	14 427	21 234	9 376
GDP per capita	6 690	13 660	9 380

Source: Eurostat, central banks, World Bank

The profile of household savings by type of asset across the benchmark countries overall is quite similar, but there are some significant differences:

Figure 4.7



Source: Central banks, report of quarterly financial accounts, households and non-profit institutions serving households, S.14.

Bulgarian and Romanian households are the most cash-oriented investors, while Hungary shows the highest penetration of securities type savings: in particular bond and investment fund holdings are above the same Bulgarian and Romanian ratio. With regards to Bulgaria,

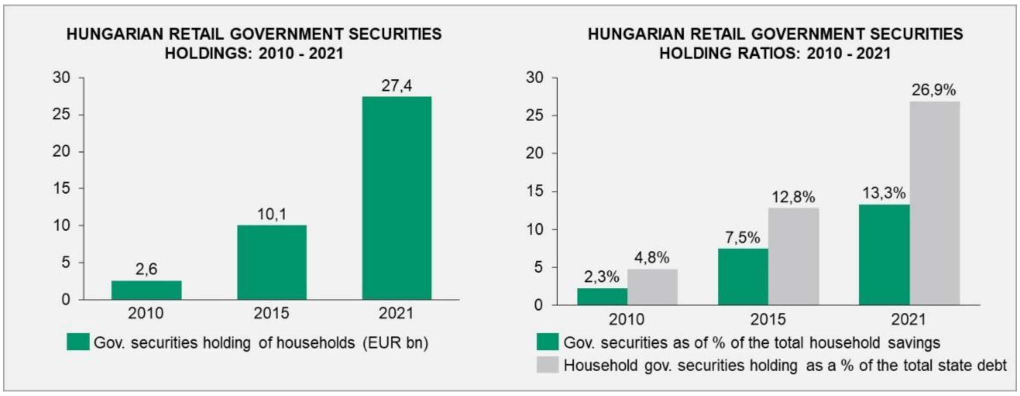
[43] Eurostat, Personal remittances statistics, 2020

equities cover both listed (ESA: F.511) and unlisted (F.512) shares in the statistics. If unlisted shares are excluded listed shares have only 2% weight.[44] Other equity (F.519) has the second largest weight after cash and deposits: it covers all business shares of resident entrepreneurs in their own business, irrespective of the legal form of the company.

Based on the outcomes of the interviews with market participants the following issues might have relevant influence on the investment attitude and decision making of the private investors and thus, the structure of savings:

- **Lack of eligible local government securities:** All types of bonds (sovereign, corporate, local, foreign) have only 0.2% weight within the household financial savings. Reasons for this include a history of low government debt to GDP ratios, lack of willingness of the state to issue bonds and T-bills regularly and with attractive pricing and the lack of a well-functioning secondary market. As the majority of the locally-issued government securities are held by local institutional investors or by banks in their investment books, private investors do not have access to this low risk asset class and cannot find alternatives to bank deposits. At this point Hungary brings the best practise in the peer group. 25 years of the well-coordinated and -working primary and secondary dealership system and the strong promotion of the State helped the locally issued government securities to become a core part of the institutional and household investment portfolios:

Figure 4.8 Hungarian retail government securities holdings: 2010 - 2021



Source: National Bank of Hungary

Although the attractive pricing of the retail government securities results in higher financing costs for the state, the role of households leads to a more stable financing structure and helps private investors to be more familiar with bond and securities investments in general and last but not least to find competitive alternative to bank deposits if needed.

Bottlenecks in the local corporate bond market: as described in Section 3, local enterprises and municipalities prefer not to borrow through bond issues on the capital market and turn instead to banks for loans.

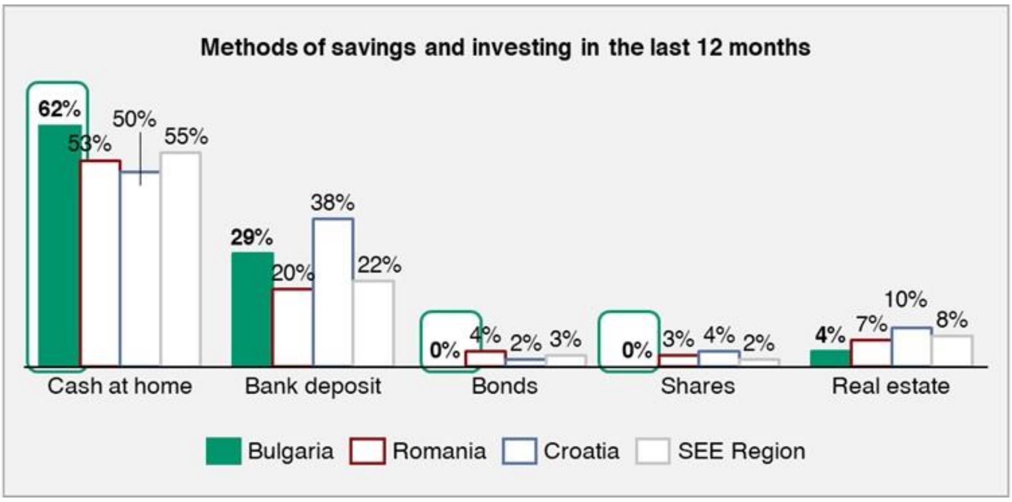
[44] According to the breakdown of F5 asset category of BNB

- **Distribution of local vs. foreign mutual funds:** Banks acting as investment intermediaries do not put foreign and domestic fund products on an equal footing, and generally prefer foreign funds to distribute and stock exchanges for trading, primarily due to cost considerations and secondly due to the range of eligible instruments. Eight of the ten largest banks with mutual fund offerings are also the largest brokerage companies. They offer a range of foreign mutual funds in cross-border distribution while 3rd party local funds are not offered, even as a part of the private banking value propositions. As a result, private investors held EUR 518mn in non-resident investment funds at the end of 2021[45], increasing their holding by more than 50% in 2021.

- **Issue of duplicated securities account keeping within financial groups:** Since the implementation of the UCITS Directive, fund management companies are no longer obliged to maintain unit-holder registries for the locally registered UCITS funds, so that a simplified distribution scheme would be legally also feasible where only banks as real distributors keep the segregated registries in their front operation. However, many financial holdings comprising banks and fund management companies continue to run a double securities account keeping practise. That generates extra CAPEX (separate IT infrastructure at the bank and the fund management company) and OPEX (human resource) at the group level.

- **Confidence in the financial intermediary system:** long-term negative impacts of the systematic banking crises in Bulgaria 1996 / 1997 as well as the painful devaluation of investments in local shares due to the financial crises 2008 / 2010 are still evidenced and have direct negative influence on the methods of savings:

Figure 4.9



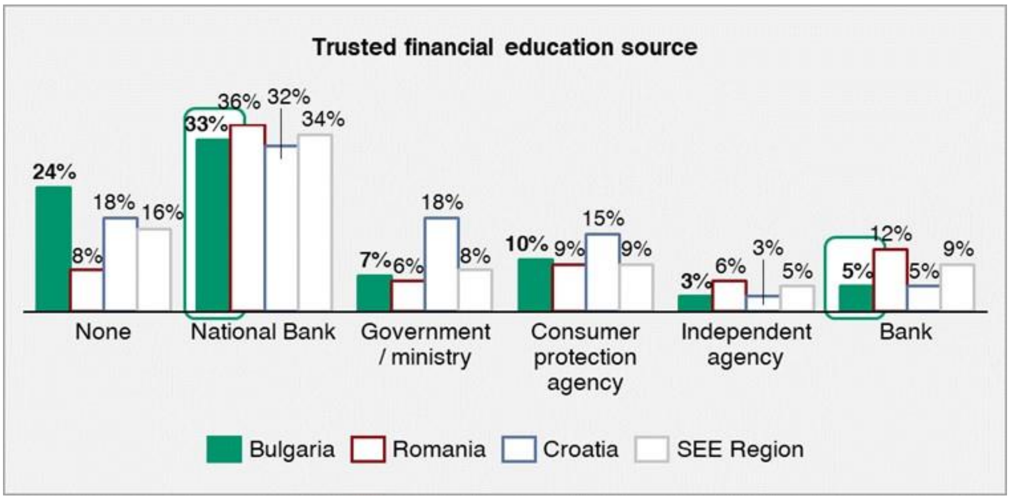
Source: OECD (2020), Financial Literacy of Adults in South East Europe[46]

[45] Statistics of the Bulgarian National Bank

[46] Survey covered 7 countries and more than 1,000 individual adults per each between the ages of 18 to 79 in the period of July 2019 and October 2019

Bulgaria is the most “cash at home” biased country in the region and shows a zero focus on investment in single bonds and shares. Comparison of trusted financial education sources also highlights that Bulgarian investors primarily prefer the central bank as credible partner:

Figure 4.10



Source: OECD (2020), Financial Literacy of Adults in South East Europe

Banks are considered as much less trusted partner and the “trust in none” answer also has far the highest ratio in the peer.

- **Lack of golden source of corporate data:** although standard sets of company data are available on the appropriate website section of BSE, FSC and the trade registry is also a public source there is no single access point. The lack of this single access point and the unified database behind encumbers the orientation of investors who strive to collect information before making decisions on capital market investments. In addition, corporate data is not always presented in an easily accessible and searchable way.

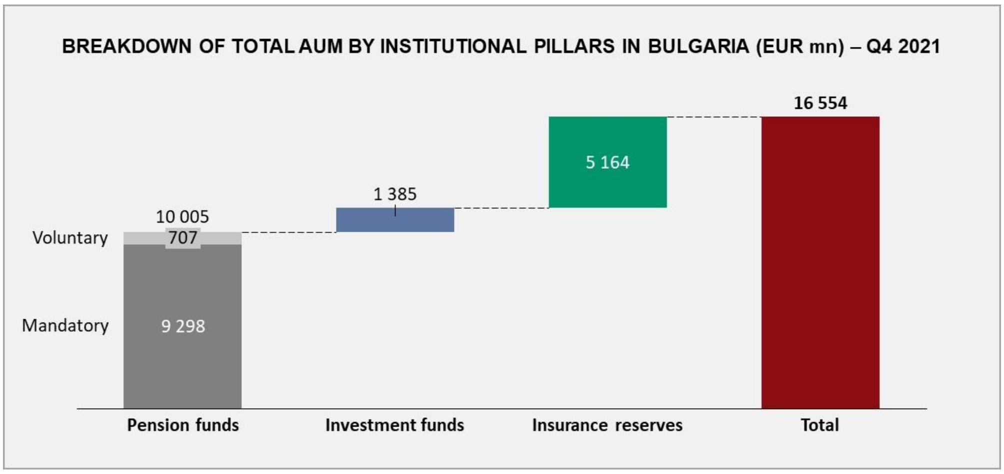
Institutional investors

Overall view of institutional pillars and types of investors, total assets under management, breakdown of portfolios by asset classes, investments in local and foreign markets

Snapshot of asset accumulation in the institutional pillars

All the three typical institutional pillars invest on the Bulgarian and international capital markets. Based on the total asset under management (AUM) institutional pillars concentrate the following saving volumes:

Figure 4.11 Breakdown of total AUM by institutional pillar in Bulgaria – 31.12.2021



Source: Eurostat, Bulgarian National Bank, professional associations

Investment funds

Collective investment schemes (CIS) are operating either as contractual funds (mutual funds) or as investment companies. Total assets under management of the local fund industry amounts to only EUR 1.391 million which is slightly less than 9% of all the assets managed by the three institutional pillars. Households are the largest investors of the local fund sector with 45% participation while local pension funds and insurance companies hold 25% of the local funds, investing ca. EUR 330 million in the local CISs. Foreign funds registered in another EU member state, passported and distributed in Bulgaria contrarily concentrate more than EUR 3,121 million where the local pension funds and insurance companies are the largest investors holding 66% of the foreign funds (EUR 2 bn) in their portfolios. Investment of EUR 2 bn in foreign funds compared to EUR 330 million in local CISs also underlines the clear investor preference of foreign markets over the local one.

UCITS are allowed to invest in securities listed on MTFs (such as BEAM) which comply with certain requirements (Article 38(1) item 2 of the Law on the Activities of UCITS and other forms of Collective Investment Undertakings) and if the instruments satisfy the test of liquidity and negotiability. There is no limitation on the aggregate amount of the investments. There is a limit of 5 % of the assets of the UCITS applying to investments in one issuer. UCITS are not allowed to invest directly in real estate.

National investment funds (these are national closed-ended or open-ended national investment companies or national mutual funds which are not UCITS) are allowed to invest in any kinds of financial instruments whether listed on regulated market, MTFs, publicly offered or privately placed with certain limits of the funds' assets which may be invested in one issuer (for example the limit is 15 % for open-ended national investment fund and 25 % if the fund is closed-ended and the financial instruments are publicly offered or will be admitted to trading on a regulated market or other organized trading facility (including MTFs). (Article 186(1) item 1, Article 187 (1) item 2 of the Law on the Activities of UCITS and other forms of Collective Investment Undertakings). National investment funds are not allowed to invest directly in real estate.

There are no limitations for AIFs.

Considering the total AUM per fund type, equity funds have the largest stake (46%), bond funds follow by 37% while mixed / real estate and other funds have 17% weight within the industry. Considering the limitations that UCITS and national investment funds are not allowed to invest directly in real estates this exposure of the industry is taken through securitized real estate investments when eg. UCITS or national investment funds are buying units of other funds like REITs which directly invest in real estates.

The relatively low level of investment funds in Bulgaria can be attributed to some structural factors. In line with the obligation imposed by law the local CSD (CDAD) has to keep all Bulgarian securities (including mutual fund units) held by clients of direct members of CDAD in segregated accounts. The segregated accounts are practically subaccounts of the local members' master accounts. The reason is to be able to identify the owners of the locally issued securities on one hand and to avoid the risk of keeping accounts for units of collective investment undertakings and other non-UCITS funds in a register administrated by the respective fund management company.

At the same time, however, global custodians who are foreign direct members of the CSD are exempt from this obligation and can hold client assets in omnibus accounts at CDAD. These global custodians are obligated to identify their clients and the transactions effected on their accounts to the Financial Supervision Commission within three business days from the written request in accordance with article 133 of the Markets in Financial Instruments Act.

This differentiation leads to extra costs in case of the locally issued securities as, due to the higher fees associated with individual accounts segregation, CDAD charges fixed fees on transactions which generates 25% of CDAD's settlement revenue. In order to lower the proportional costs of fund transactions CDAD introduced a special reduced tariff for money market and short bond funds five years ago and this is currently set at 2.5 eurocent per transaction which is 20% of the basic tariff so that it represents an 80% discount. As a further step and in cooperation with BAAMC, a new effective tariff has been introduced in June 2022 which applies the same 0.025 EUR fee above a certain transaction volume and irrespectively from the fund type. These measures could lower the costs of fund distribution on the side of CDAD. However, there are further fees of other players of the distribution process s the custodian bank fees, securities account management fees or the intrabank transfer fees introduced from January 2022, which are eg. in most of the cases at least 30 eurocents. At the end of the distribution chain investors pay mainly fix fees at purchase and redemption of local funds. So that some of these fees are directly paid by the investors, some others by the fund management companies and there are fees which are directly loaded on the funds. All in all, the different types of fees are accumulating alongside the fund management and distribution and lowers the final net return of fund investments, in particular at smaller size investments and redemptions.

Summing up, although fees are mainly small fix and percentage fees at each stage of the distribution process, the overall costs can be significant. That is especially critical for such lower risk - lower yield vehicles as money market and short bond funds where the fees can significantly lower the fund performance and make the products unattractive, in particular in saving programs based on small but regular investments in low risk funds. This is still one of the key barriers to the development of the local money market and bond fund segments as backbone of the institutional pillar which could provide easily understandable investment solutions for private individuals on one hand and generate demand on locally issued government and corporate bonds on the other.

Pension funds

The structural reform of the Bulgarian pension system since the late 1990s resulted in one of the most dynamic asset accumulations of pension reserves in the region. As a result of the robust growth in the last 15 years the total AUM of the pension portfolios exceeded EUR 10 bn at the end of 2021. The traditional pay-as-you-go system was transformed into a three-pillar system and compulsory and voluntary fully funded pillars were set up. The current Bulgarian pension system is based on the Social Insurance Code [SIC] which came into force in 2003).

Pension funds consist of mandatory universal and occupational pension funds, voluntary pension funds and voluntary pension funds with occupational schemes.

Out of these only voluntary pension funds with occupational schemes are allowed to invest in securities listed on MTFs (such as BEAM). In particular:

- (Article 249(3) items 2 and 3 and Article 251(13) of the Social Insurance Code) Voluntary pension funds with occupational schemes only are allowed to invest up to 5 % of their assets in:

- Corporate bonds, admitted to trading on a multilateral trading facility (such as BEAM) or organized trading facility in a member state, and

- Shares other than shares in a collective investment undertaking, as well as warrants and rights in such shares, traded on an MTF or OTF in a member state.

Beside the pay-as-you-go system (pillar I), the second pillar is most robust and concentrates 93% of all the pension reserves of pillar II and III. The second pillar is a supplementary mandatory pension insurance system based on individual retirement savings accounts which are managed by pension insurance companies. The second pillar has two types of pension funds: Universal Pension funds (UPF) which give the dominant part (92%) of pillar II. and Occupational Pension Funds setting up for early retirement intended to cover all persons working at hazardous environment. Pillar III is a supplementary voluntary pension insurance system where pension fund members contribute voluntarily to the private pension funds which are also managed by pension insurance companies. The very moderate asset accumulation in pillar III highlights the lack of well-established and conscious investor behaviour of households towards long-term savings as well as the room for improvement of the overall financial literacy.

Insurance sector

Insurance companies held close to one third (31%) of all assets invested by Bulgarian institutional investors at the end of 2021.

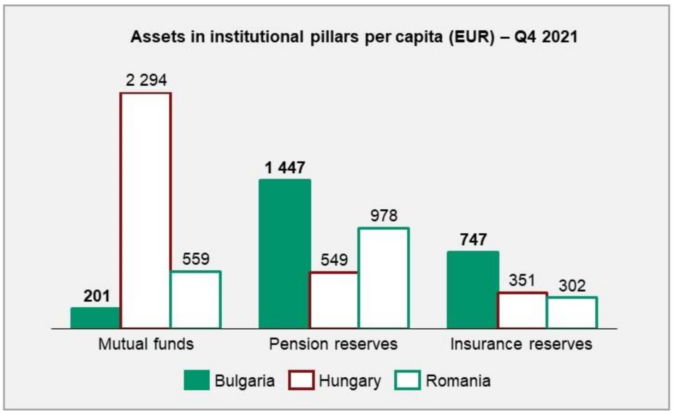
Legally, there is no limitation on investments in assets which are not admitted to trading on a regulated market except that they should be kept to “prudent levels”.

There are some limitations regarding what assets can be used to cover technical provisions for insurers with no access to the EU common market. Securities listed on MTFs may be used to cover such technical provisions with some requirements for diversification in this respect (for example a 5 % limit for investments in one issuer).

Overview of institutional investments – domestic and foreign flows

Considering the investment assets per capita and per pillars comparison Bulgaria brings the highest values with regards the pension and insurance pillars, however, the local mutual fund industry is very far behind the peer:

Table 4.12 Assets per capita



Source: Eurostat, statistics of local central banks and professional associations

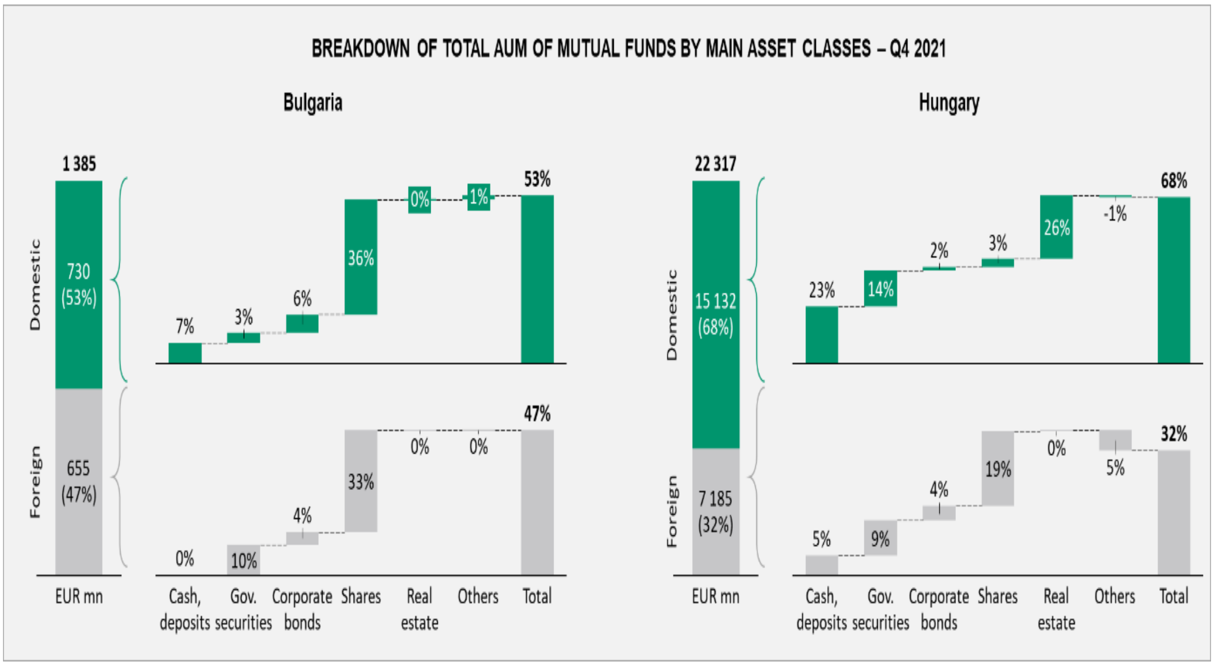
The outstanding asset per capita value at the pension pillar is a result of the solid asset accumulation in the last 15 years. That is dominantly based on growth of the mandatory pension funds (the contribution rate has not been changed) and far less by the growth of voluntary funds. On the contrary, in comparison local mutual funds have an extreme low representation in the savings portfolio of households. The total AUM of the local fund industry is under EUR 1.5 bn and thus, it is not able to generate considerable demand on the local market, neither in the equity nor in the bond segment. From another perspective, due to the average size of the portfolios local mutual funds are not attractive investment targets for the much larger local institutional investors, especially for the pension funds particularly for two reasons: investment of larger amounts may be challenging in the illiquid local capital market and thus, effective portfolio building may be damaged on one hand, and bulk redemptions may cause liquidity problems for the smaller funds on the other.

Breakdown of total AUM of institutional pillars in Bulgaria and Hungary by main asset classes – comparative overview 31.12.2021

The following chapter makes an in-depth comparison between Bulgaria and Hungary and examines the overall portfolio composition of the institutional pillars by main asset classes and direction of flows showing whether savings have been invested in local or foreign assets. Romania is not a part the analyses as detailed data were not available in the required splitting.

As an overall evaluation and comparison, as detailed above Bulgarian institutional investors prefer to invest outside Bulgaria because of the small local market size, low liquidity and the lack of eligible investments vehicles. Due to these difficulties the bigger is the portfolio to be invested the larger is the foreign preference of the institutional investors. The smallest pillar, local investment funds with a total AUM of less than EUR 1.5 bn are allocating their assets close to 50 – 50% between the local and foreign markets. The small local market size and the limited range of eligible investment vehicles orientate pension funds and insurance companies much rather towards the foreign markets as the much larger portfolios cannot be locally invested safely and diversified effectively. At these pillars roughly two third of the assets are invested locally in Hungary while Bulgaria shows just the reverse case.

Figure 4.13 Mutual funds



Source: Eurostat, Financial Supervision Commission Bulgaria, statistics of local central banks and professional associations, as of end of 2021

Comparing Bulgaria to Hungary, there are structural differences in the mutual fund market. The main difference is that for historical development reasons UCITS funds have marginal role the Hungarian fund market and majority of the AUM is concentrated through non-UCITS funds. That has the most significant and direct impact on the money market fund segment where fund managers are allowed to invest 100% of the fund assets eg. in deposits and other money market instrument kept or issued by the same financial institution. Such permissive approach regarding the investment limits of national fund explains the 23% weight of money market funds within the total AUM of the industry.

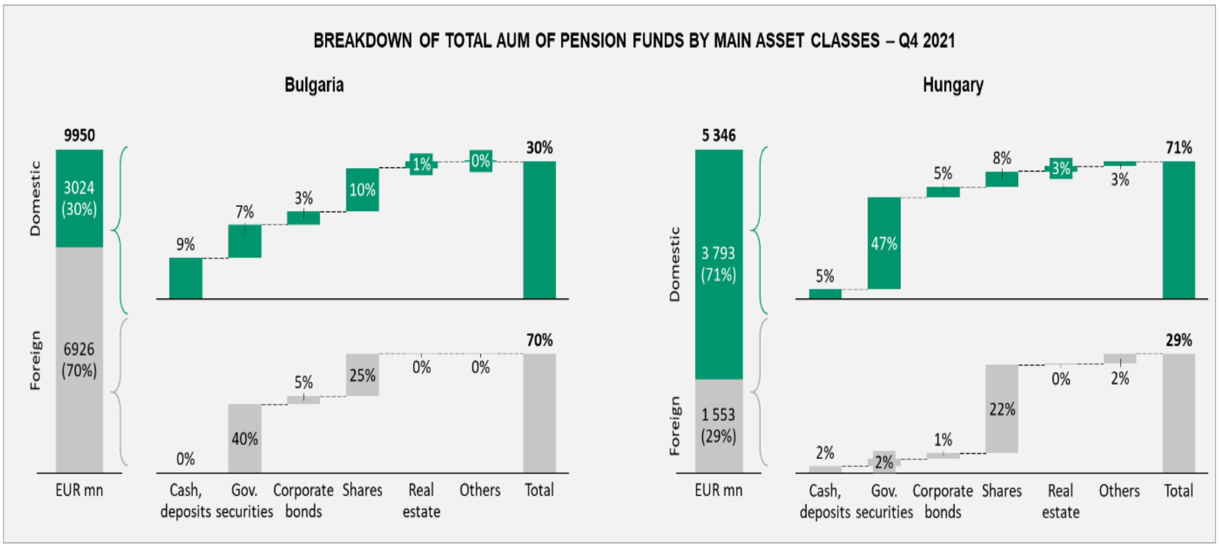
The role and weight of real estate funds can be considered as another important difference. Unlike the Bulgarian national funds, the Hungarian local non-UCITS funds can directly invest in real estate. Those retail products are mainly exposed 60-70% to the real estate sector while the rest of the assets are invested in money market instruments like short term deposits. These real-estate weighted products can offer investment opportunities benefiting from the return of the real estate market also for the retail investors who prefer moderate risk, calculable performance. At the same time, the 30-40% money market exposure allows the investors to redeem their units within reasonable time.

The main reason for the differences in the local and foreign asset allocation as regards bonds is laying in the much more developed Hungarian bond market, meaning primarily the government securities and secondly the mortgage bond segment. The money market and short bond funds are driving the growth of the Hungarian fund industry and enable to offer wide range of law risk – moderate return investment products for the typical private investors who risk-averse, prefer easy-to-redeem investment solutions and usually invest smaller amounts through frequent saving programs backed by these funds.

Foreign government securities are important building blocks of the fund portfolios on both markets and represent close to the same weight (10 vs. 9%) within the total asset under management, however the big difference is the exposure to the local government securities: because of the low supply only 3% of the Bulgarian funds' assets are invested in local government securities. The same figure is 14% in Hungary where the total AUM of the industry is 16 times higher than in Bulgaria.

Structure of equity exposure underlines another difference of the mutual funds industry in Bulgaria and Hungary and this is the overall risk level and thus, the vulnerability of the Bulgarian mutual fund investments, in particular investments of the overall risk-averse private investors. More than two third of the total assets are invested in equities which are allocated ca. 50-50% between foreign and local equities. Thus, one third of mutual fund investments of private individuals are invested on the local equity market. In comparison, Hungarian funds are exposed to the local equity market only in 3% and majority of the asset class is invested in foreign equities for liquidity and diversification reasons.

Figure 4.14 Pension funds



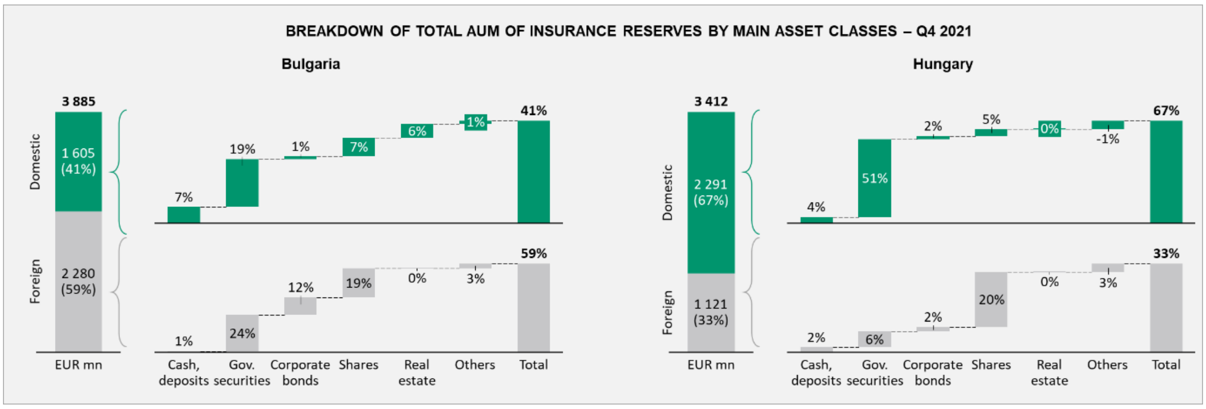
Source: Eurostat, Financial Supervision Commission Bulgaria, statistics of local central banks and professional associations, as of end of 2021

The comparison covers assets both in mandatory and voluntary pillars in Bulgaria and in Hungary.

Size of AUM also explains why the overall asset allocation between domestic and foreign assets is reversed in Bulgaria and in Hungary. The half-sized Hungarian pension industry allocates 71% of its assets on the domestic market while the Bulgarian pension portfolios are exposed in 70% to foreign assets. The difference is mostly explained by the role of the domestic government securities segments in the portfolio building: while the overall government securities exposure is close to the same weight of domestic and foreign suvereign investments are reverse.

With regards to the corporate bond and equity exposures the two pension industries are similar both in terms of the total weights and the allocation ratio between domestic and foreign markets. However, focusing on the figures of the asset class exposures role of pension funds as relevant players on the buy-side should be highlighted because they generate strong demand both in the local corporate bond and equity segments where they are the biggest local investors. Considering the size of the total AUM the pension industry could invest significantly more on the local market if supply was more adequate. In addition, pension funds can invest also in unlisted bonds if the issuer is committed to list the bonds within a 6 months' period. It is also worth mentioning at this point that in case if listing fails redemption usually takes too long time which can hold back pension funds from such type of investment.

Figure 4.15 Insurance reserves



Source: Eurostat, Financial Supervision Commission Bulgaria, statistics of local central banks and professional associations, as of end of 2021

With regards to the overall asset allocation between foreign and domestic assets the insurance industry represents the similar foreign bias as the pension funds in Bulgaria. On the contrary, Hungarian insurance reserves are increasingly invested on the domestic market. Beside the significant difference in government securities investments similarly to the other two institutional sectors corporate bond exposure of the Bulgarian insurance portfolios underline the very clear demand of the Bulgarian institutional investors on the asset class: 13% of the total AUM is allocated in corporate bonds but only 1% is invested in domestic securities. Thus, insurance sector could also generate strong demand on more local corporate bond issuances.

Foreign investors

Foreign investors do not play relevant role on the Bulgarian capital market. Snapshot of barriers and key issues are as follow:

- There is no sufficient supply of locally issued government securities which could attract the attention of foreign investors. Bulgarian government securities denominated in euro are traded by foreign investors on markets outside of Bulgaria.
- Bulgarian local equity market is struggling with the issue of the small market capitalization, low liquidity and the very moderate free float of listed equities. That does not make the Bulgarian local equity segment attractive and it cannot be considered as a real investment option for large foreign institutional players.
- These barriers and limitations explain why the Bulgarian capital market is not involved in any equity indices covering the emerging world. For example, MSCI emerging market indices list only Poland, Czech Republic and Hungary from the region, as a part of the EMEA universe while other regional markets such as the Croatian, Slovenian, Serbian and Romanian are covered by the MSCI frontier markets indices. The weakness is for Bulgaria that foreign institutional investors are not tracking frontier market indices by their investment, only emerging ones up to a moderate percentage of their investments.
- The FTSE Russell categories are shown in the table below.
- Due to the lack of index coverage, there are no passive, tracker-type products (eg. ETFs) focusing on Bulgaria. There is only one Bulgarian services provider which is managing an ETF product tracking the SOFIX index. The ETF is also listed on Frankfurt and London stock exchanges and thus is currently the only investment vehicle which provides a one-click access to the Sofia Stock Exchange for foreign investors trading on foreign market places.
- In Hungary there is only one BUX tracker managed by OTP Fund Management. Romania – BET Index: there are one ETF tracker managed by the same Bulgarian asset manager which is also managing the SOFIX tracker UCITS fund. Besides, there are only two known foreign ETF with Romanian exposure: (I) iShares MSCI Frontier and Select EM ETF with 5.78% Romanian exposure (II) Global X MSCI Next Emerging & Frontier ETF with 0.82% Romanian exposure but those do not cover the entire index but purely pick up a few large cap components.

Status of CEE countries in FTSE Russell classification[47]

Poland	Developed
Czechia	Advanced Emerging
Hungary	Advanced Emerging
Romania	Secondary Emerging
Bulgaria	Frontier
Croatia	Frontier
Estonia	Frontier
Latvia	Frontier
Lithuania	Frontier
Slovak Republic	Frontier
Slovenia	Frontier

The weaknesses that need to be addressed for countries to graduate from the Frontier to Emerging categories in the FTSE Russell classification[48] are:

- No simple registration process for foreign investors
- No developed foreign exchange market
- Restricted stock lending
- Restricted short sales
- No developed derivatives market
- No CCP for equities

[47] https://research.ftserussell.com/products/downloads/Matrix-of-Markets_latest.pdf

[48] https://research.ftserussell.com/products/downloads/Europe-Frontier_latest.pdf

5 Trading

As described in Section 3, the Bulgarian Stock Exchange is divided into different trading segments, similar to other European Exchanges. The highest value and volume of trading on the exchange is in the equity segments.

Table 5.1 Overview of trading on BSE

	Total value traded (BGN mns)		Number of trades per issue (2021)	Average size of trade (2021, BGN)
	2020	2021		
Premium	46	77	2,165	5,000
Standard	167	352	775	7,500
SPVs	56	84	511	10,300
Corporate bonds	44	169	5	420,000
Government bonds	1	1	0	-
BaSE	51	69	17	29,000
BEAM	-	33	850	1,700
BSE International	-	10		

Source: BSE

Equity Market trading

Table 5.2 Trading on equity and related segments of BSE for the period 2020-2021

	2020			2021		
Market Segment	Average Daily Values			Average Daily Values		
	Trades	Turnover (BGN)	Turnover in EUR	Trades	Turnover (BGN)	Turnover in EUR
Premium Equities Segment (BSE Main Market)	85	185,365	94,536	62	313,163	159,713
Standard Equities Segment (BSE Main Market)	108	678,479	346,024	190	1,430,025	729,313
Special Purpose Vehicles Segment (BSE Main Market)	32	228,947	116,763	33	343,422	175,145
Compensatory Instruments Segment (BSE Main Market)	3	14,976	7,638	3	10,401	5,304
Exchange Traded Products Segment (BSE Main Market)	3	7,799	3,977	4	16,078	8,200
Subscription Rights Segment (BSE Main Market)	3	8,059	4,110	5	7,893	4,026
Equities Segment (BaSE Alternative Market)	10	209,872	107,035	9	280,645	143,129
Special Purpose Vehicles Segment (BaSE Alternative Market)	3	95,031	48,466	2	57,942	29,525
BEAM Equities (SME Growth Market)				24	40,802	20,809
BEAM IPO (SME Growth Market)				13	95,235	48,570
MTF BSE International				7	41,984	21,412
Total:	247	1,428,528	728,549	352	2,637,590	1,345,146

Source: BSE website, Annual Statistics,

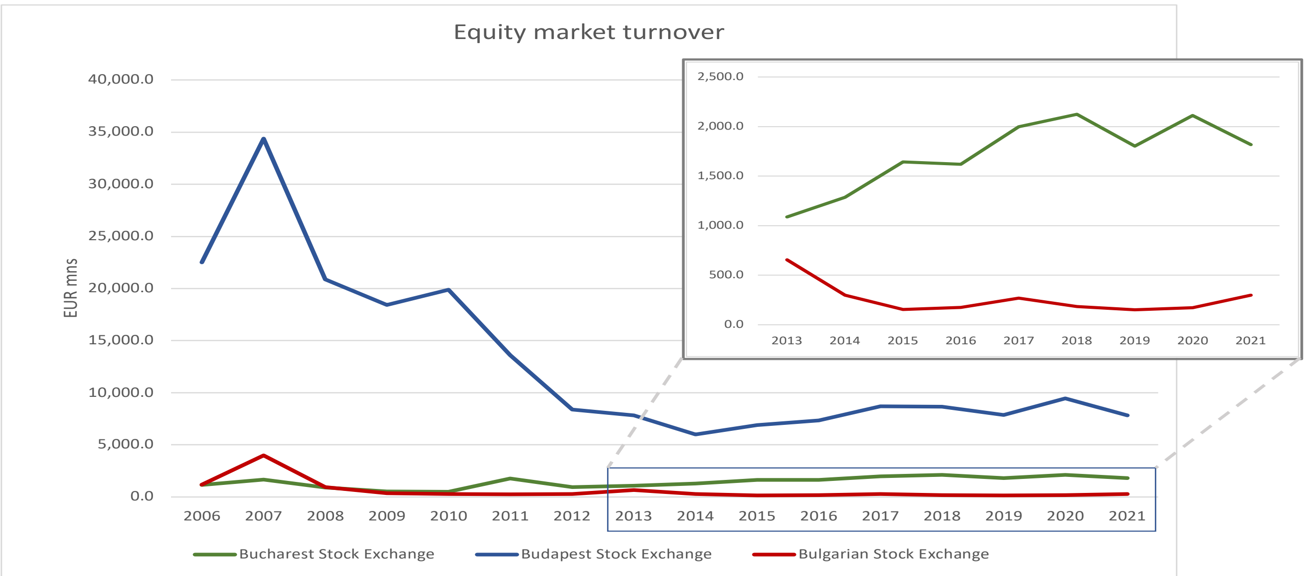
The Premium segment with the strictest entry conditions and the strictest reporting obligations is the most liquid, followed by the Standard segment. The BaSE segment is for companies that do not meet standard requirements and it is very illiquid. BEAM is an SME growth market MTF.

There is also the BSE International segment which is basically an order routing system of international equities for the members of the BSE. This segment is in direct competition with similar systems from international and local brokers.

In addition, equities are traded on MTF Sofia. Total trading of equities and REITs in 2021 was BGN64mn[49]. Trades on MTF Sofia are fewer in number but larger in size than on BSE, with an average trade size of BGN206,000.

Turnover is lower than in the benchmark countries and has been more subdued since the 2007 peak.

Figure 5.1 Equity market turnover

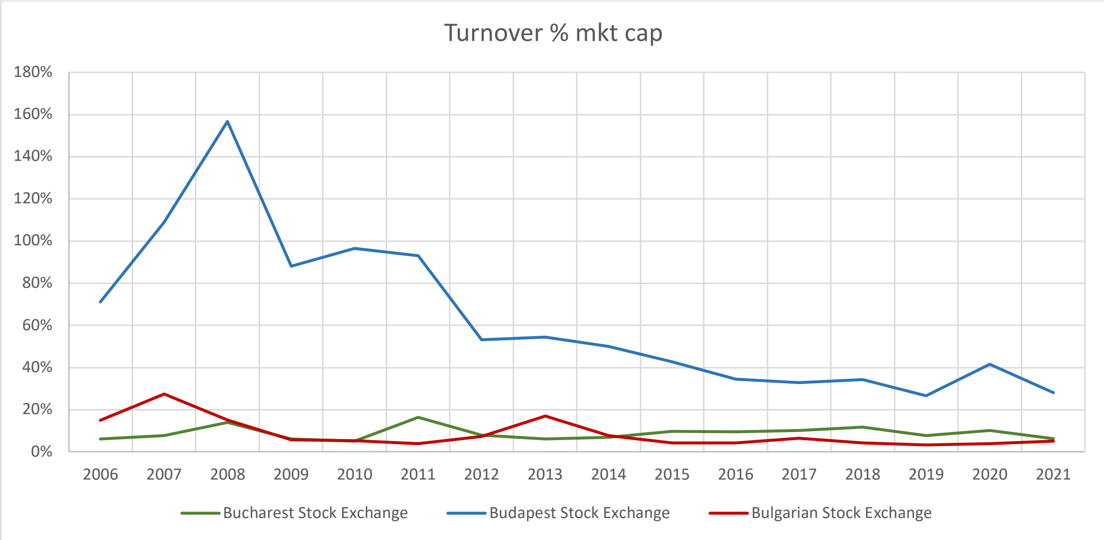


Source: FESE and authors' calculations

This is also seen measured in relation to market capitalisation, which also fell sharply following the financial crisis.

49 Source: MTF Sofia. This assumes published data are double-counted and the total has been adjusted accordingly.

Figure 5.2 Market turnover as a percentage of market capitalisation



Source: FESE and authors' calculations

The volumes traded in the BSE are low even considering the size of the market. By comparison the total daily turnover of the Bucharest Exchange is approximatively EUR 8mn, some 5 times the BSE volume and the daily turnover of the Budapest Stock Exchange is around some EUR 46mn, reflecting the greater size of these markets. The trading volumes, liquidity and depth of the market are the main issues of the BSE and reasons for concern.

There are market makers which are firms that have entered into an obligation to provide a minimum level of liquidity in specific issues. In return they receive 1.5bps on the trades they undertake. Similar arrangements exist in Hungary and Romania, where the bulk of the market making commitments relate to warrants. In Romania the detail of the commitment is not public. In Hungary and Romania the performance of market makers is published monthly[50] but not in Bulgaria.

[50] https://www.bse.hu/Prices-and-Markets/Data-download/Market-maker-performance and https://m.bvb.ro/Intermediaries/ListOfIntermediaries/MMAndLPPerformance

Table 5.3 Comparison of costs of trading

	BSE (Requirements for receiving incentives)	**Budapest SE**
Maximum bid/ask spread	5% shares 1% bonds	1.95% - 3% depending on issue
Duration of quotes	90% of time from beginning of opening auction to end of closing auction	70%
Minimum quote size	BGN2,500	800 – 29000 shares
No of securities covered Equities ETFs	 20 11	 7 1

Sources: BSE - https://www.bse-sofia.bg/en/market-makers

Budapest: https://www.bse.hu/pfile/file?path=/site/Angol/Documents/Products_And_Services/BETa_Market/reszletes-parameterek_a_20220505

In the absence of depth of market in Bulgarian equities, investors are turning to international markets. They can access these through local brokers who can trade through the BSE's international MTF or direct with counterparts in other markets. Trading internationally is also attractive as the costs are lower than for trading domestically. For example, a local broker, charges 10bp to trade on a wide range of markets in Europe and North America compared with 70bp for trading locally through their on-line platform. . The fee for local trades is higher, as it has to cover the BSE fee (including VAT) and CDAD settlement fees, with fixed costs spread over a smaller volume of trades.

Table 5.4 Trading fees

Trading fee for	BSE[51]	Budapest	Bucharest
Equities	6.5bps Of which 1.5bps rebated to the market maker	1.5bps	3.5bp for buy orders 9.5bp for sell orders Plus RON0.95 per order
BSE International	5bps		
SME market	BEAM market: 6.5bps shares 1bp bonds		AeRO market: 4bp to buy 10bp to sell No fixed element
Government bonds	1bp	1bp	

The BSE uses the T7 trading platform of the Deutsche Börse (the same system used by the Budapest SE). The T7 is a well know and well-functioning trading system, based in the old Xetra platform, and in use in many Exchanges. The financial arrangement between BSE and Deutsche Börse are based on a floor flat fee and another amount based on a percentage of the trading volume.

So, the BSE has a more than adequate technical and human infrastructure, the main reason of concern being the low volumes in the issuance and trading part.

Reasons for low level of equity trading on BSE:

- Very low levels of equities available for trading (see section 3), taking account of small issue sizes and limited free float
- Absence of opportunities for short selling or day trading
- Absence of derivatives or derivative-type instruments
- Greater opportunities and lower costs to trade foreign equities

It seems there is interest in trading (for example the development of BSE International since it was launched) but there is an absence of opportunities.

[51] Fees are subject to VAT at 20%

Debt Securities

Table 5.6 Trading on debt segments of BSE for the period 2020-2021

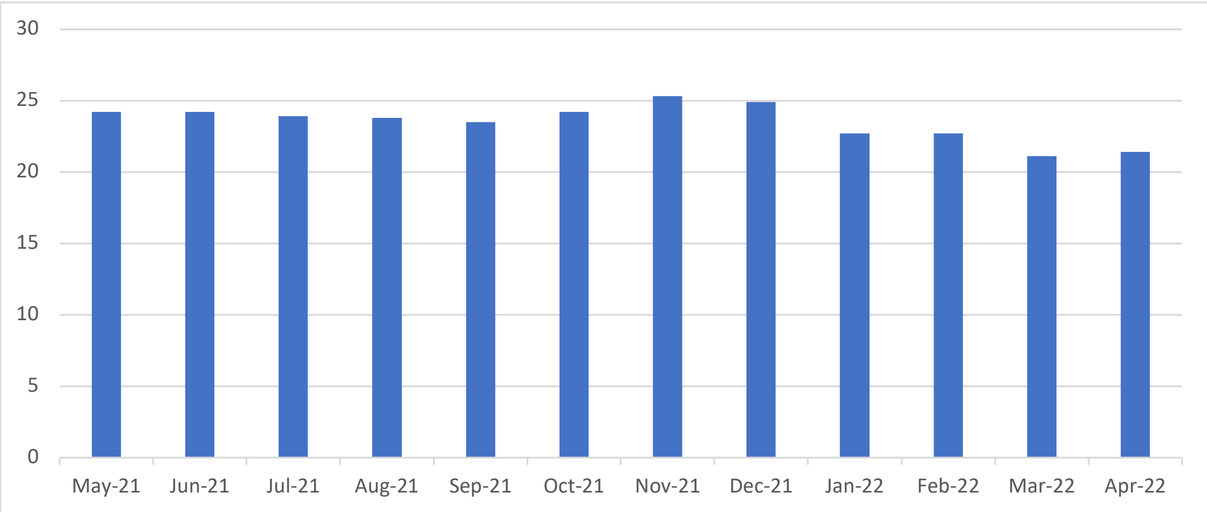
Market Segment	2020			2021		
	Average Daily Values			Average Daily Values		
	Trades	Turnover (BGN)	Turnover in EUR	Trades	Turnover (BGN)	Turnover in EUR
Bonds Segment (BSE Main Market)	1	176,727	90,131	2	687,384	350,566
Government Securities Segment (BSE Main Market)	0	4,056	2,068	0	4,148	2,115
Total:	1	180,783	92,199	2	691,532	352,681

Source: BSE website, Annual Statistics,

Very little debt trading takes place on BSE.

Normally, the local government bond market is the foundation for other market segments, including corporate bonds and the equities market, but in Bulgaria there is a very limited government securities market with virtually no trading (hold-to-maturity attitude). This is partly explained by the low level of government borrowing, the fact that 2/3 of government debt issued in euros outside the country and the limited role of the BNB during the ERM II period, but there are also institutional factors. In the last years the Government Debt/GDP ratio has been around 23-24%, falling to 21.4% in April 2022.

Figure 5.3 Government Debt/GDP ratio in Bulgaria:



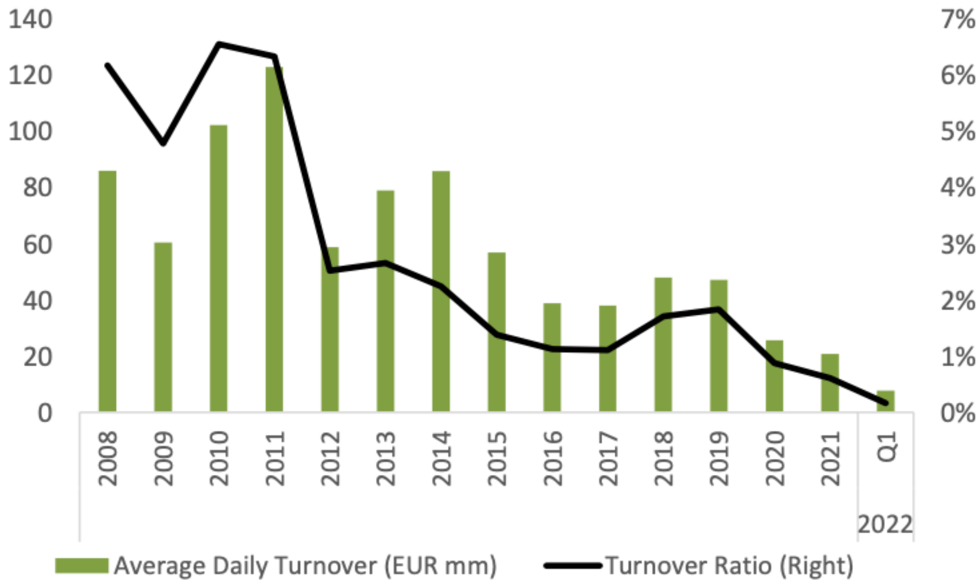
Source: Trading Economics, MOF

This extremely low ratio is not without consequences. In our interviews, market participants complained that there is an obvious lack of Government paper to cover the amount they need to hold to meet their obligations.

Trading in the secondary market is done partly OTC (over the phone and other means) and 90% on the Bloomberg platform by the Primary Dealers, with a very small amount on the BSE. The infrastructure in place for trading in the secondary market ie, the primary dealership agreement, the trading platform (Bloomberg) and the link to the CSD are functioning but the levels of traded volumes are extremely low.

The traded volume in the secondary market is important but the turnover ratio[52] is a key element to understand the liquidity, depth and how easy it is to access a market. The values for Bulgaria are extremely low, meaning that the volumes are low but also the relationship between issued debt and traded volume.

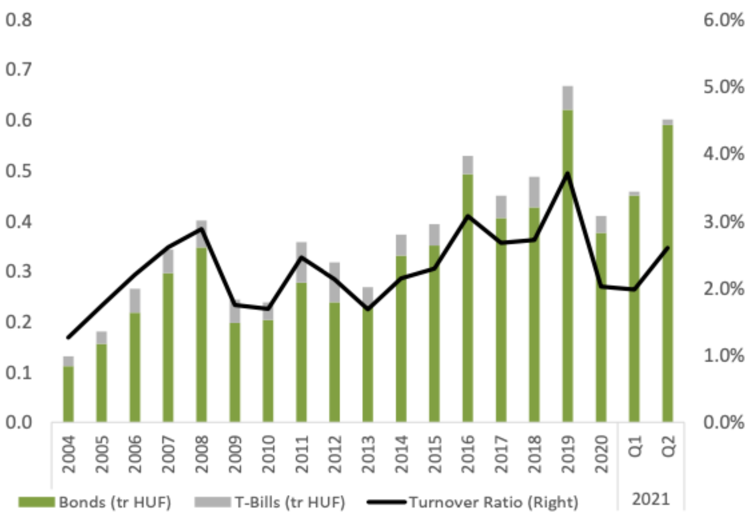
Figure 5.4 Bulgaria: Average daily turnover volume and turnover ratio



Source; data from AFME

If we compare the present turnover ratio of Bulgaria (close to 0%) with other European countries, we see that the volume of the secondary market in government bonds is a key aspect that needs to be improved.

Figure 5.5 Hungary: Average daily trading volume and volume turnover ratio

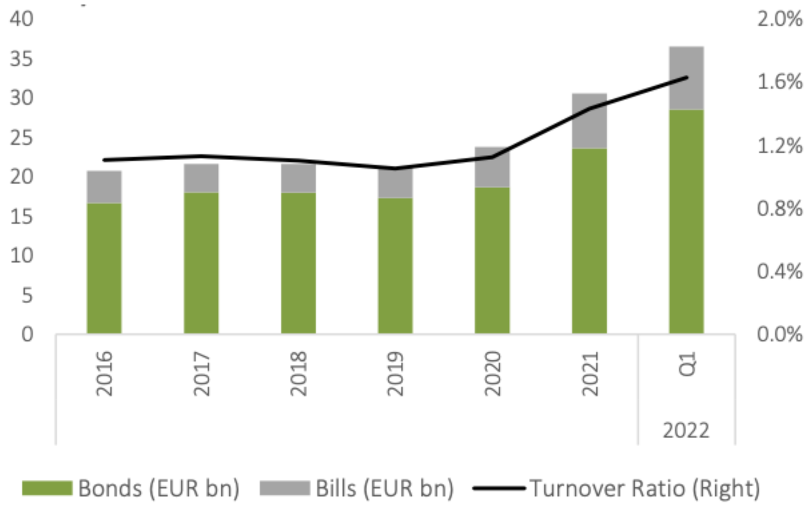


52 The turnover ratio is equal to the daily average trading volume divided by the total outstanding debt volume for the country at the time of the trading.

Source: Data from AFME

In Spain and Italy, for example, the turnover ratio is consistently between 1.5% and 2%.

Figure 5.6 Italy: Average daily trading volume and volume turnover ratio



Source: Data from AFME

From this data we see that we have 3 overlapping problems in Bulgaria. The first is the low level of issuance as seen in the Debt/GDP ratio. The second is the very low level of trading activity in the secondary market and the third is the very low turnover ratio that must be ideally somewhere between 1.5% and 2.5%.

In order to create liquidity, the right obligations framework must be implemented. The Ministry of Finance Order (Nº ZMF -1358 dated 31/12/2021) gives the right general framework but the conditions are not very demanding for the Primary Dealers (PDs) on two major points:

1. The minimum volume for quotation of BNG 500,000 (some EUR 255,000) is low compared with other countries that are generally between 1 to 5 million Euros for each side of the spread.[53]

2. The maximum spread between bid and offer is another important element for creating the conditions of a liquid and deep secondary market. The provision of the Ministry Order of 50 bps is extremely large. Due to the trading risk that the PDs are assuming, DMOs in other European countries impose different maximum spreads depending on the maturity of the bonds.

As an example of bid/offer spreads in other countries:

a. Slovenia:	1.25 to 3.5 years:	10bps[54]
	3.5 to 6.5 years:	15bps

[53] For example: France and Austria is EUR 2.5mn and 5mn; Spain is EUR 1mn; UK is GBP 5mn.

[54] Yield Spread is expressed in 'basis points' where 1 basis point represents 0.01% of annual yield to maturity of the financial instrument. If the quoting is in price the Spread is expressed in 'ticks' where 1 tick represents 0.01% of the par value of the financial instrument.

	6 to 13.5 years:	20bps
	+than13.5 years:	25bps
b. France:	1 to 3.5 years:	4bps
	3.5 to 6.5 years:	4bps
	6.5 to 11.5 years:	5bps
	11.5 to17 years:	10bps
	17 to 35 years:	20bps
	+ than 35 years:	30bps

The obligations in terms of quoting volumes and size of spreads is a major issue that needs to be assessed as any future development of the overall capital market will depend on the liquidity and depth of the government bond market.

The quality of the yield curve depends on the quality of the data. Right now, a correct yield curve can be calculated from the Bloomberg prices. But as the traded volumes are so low and the depth of the market so shallow, any hit on either side of the spread can modify substantially the prices. So, in order to have a quality yield curve information it is important to have more liquid secondary market.

The accession of Bulgaria to the euro area in the next years, is a major event that will affect the overall structure and "marketability" of the Bulgarian government securities.

The future of the government bond market after euro accession is not clear. The government has been issuing euro-denominated Eurobonds (settled in Euroclear and Clearstream) as well as local BGN-denominated bonds. After accession to the euro area the BGN-denominated bonds will be redenominated into euros settled locally, but these will be a different class from the Eurobonds (settled in Euroclear and Clearstream). Clarification is still needed on how these different classes of bonds will be used in central bank operations.

When all outstanding government debt is denominated in Euros, the competitive environment of the government securities market will radically change. From one part the local institutional investors (pension funds, insurance companies etc..) will have a much wider range of options from where to choose to cover their future liabilities, mainly from other government securities also denominated in euro and with similar rating. So, the Bulgarian paper will be suddenly in competition with other euro denominated government securities. From another part, the same institutional investors will choose their securities according to the ease of operations (trading platform) and settlement and most importantly depending on the liquidity available. It is crucially important to try to solve those issues before the introduction of the euro.

This new marketing context is also true for the non-resident banks and investors. In the same way as the Bulgarian government securities will be included in the euro "package" they will lose any incentive to specifically invest in Bulgarian securities. If the non-resident investor model for a passive portfolio indicates, for example, 30% of euro-denominated government securities with a specific rating, the investment manager will be able to choose between different countries and will probably go to the easiest to trade and most liquid securities.

The issuance and trading of government bonds, post euro accession, implies a new competitive environment for the DMO that needs to be evaluated and assessed. A review of the needs in terms of new trading infrastructure, a new framework for the Primary Dealers and a new issuance and communication strategy will be necessary.

6. Post-trade Structure

Central Depository AD (CDAD)

Central Depository AD was established in 1996 to maintain the national registration system and the system for settlement of corporate dematerialised securities.

CDAD was established under Art. 91 of the Securities, Stock Exchanges and Investment Intermediaries Act and currently it is governed by the Law on Public Offering of Securities and Ordinance No8 of the Financial Supervision Commission on the CSD.

On 17 September 2018 the Financial Supervision Commission (FSC) licensed CDAD to perform activities in the EU in accordance with the Regulation 909/2014 of the European Parliament and of the Council (CSDR).

CDAD is a non-public joint-stock company, owned by the Ministry of Finance, BSE, banks and brokers, insurance companies and private/other institutions:

Table 6.1 Ownership of CSDs

Share of ownership	**CDAD**	**KELER (HU)**	**Depozitarul Central (RO)**
Ministry of Finance	43.7%	-	-
National Central Bank	-	53.33%	-
Stock Exchange	6.21%	46.67%	69%
Banks	37.01%	-	6.9%
Other investors	13.08%	-	24.1%

CDAD is a for profit organisation – just like the CSDs in Romania and Hungary. Since its inception, CDAD reached net profit in all but one year (2017, due to financial losses related to the bankruptcy of Corporate Commercial Bank, where part of CDAD's funds were kept) and in most years the operating result figures already showed some profit. CDAD pays dividend (typically 50 %) to its owners after the net profit. The equity capital of the company (as at end 2020) is beyond BGN 5m – see below table with figures of comparator CSDs included:

Table 6.2 Capitalisation of CSDs

capital, 2020, EUR	**CDAD**	**KELER* (HU)**	**Depozitarul Central (RO)**
issued share capital	511,300	12,366,376	5,195,233
shareholders' equity	2,577,462	69,128,033	6,294,682

*KELER is a specialised financial institution and in this role keeps limited purpose cash accounts for non-bank financial intermediaries for all securities related cash movements

Participants, accounts, services, systems

According to the European Securities and Markets Authority (ESMA), based on its CSDR initial authorisation CDAD performs all three core services – (1) notary service, (2) central maintenance service and (3) settlement service – and several ancillary services like securities lending, collateral management, corporate actions processing, ISIN allocation, maintaining and disclosing LEIs, establishing CSD links, regulatory reporting etc. Some of these ancillary services are however not used, like securities lending and borrowing which was developed by CDAD to support short selling and margin trades. It has to be mentioned, that it is a very similar situation at KELER, Hungary – L&B services are readily available for participants, but typically such deals are concluded outside of the CSD. According to the Bulgarian Public Offering Securities Act of 1999 CDAD also performs the function of the National/Central Securities Register.

Securities: CDAD is the issuer CSD to all types of domestic securities except for government securities, where the Bulgarian National Bank provides the CSD functionality. All securities that the CDAD accepts in its systems must be in dematerialised format.

In order to provide settlement in government securities that are also listed on the Bulgarian Stock Exchange, CDAD has a direct link (account) with the Government Securities Depository operated by the Bulgarian National Bank (BNBGSSS) since 2018. Currently, less than 1 % of total issued local government securities are kept within CDAD.

Participants: There are three main categories of membership in CDAD:

- clearing member
- direct member
- non-clearing member

The services provided by CDAD are accessible directly for clearing members and direct members (on their own account and their clients' accounts), non-clearing members (indirect participants) can only access CDAD services through a clearing member.

The members can be

- investment intermediaries (banks, non-bank institutions)
- asset management companies
- BSE
- foreign depositories, clearing institutions

Table 6.3 CSD Participants

Participants (domestic/ non-domestic)	CDAD	KELER	Depozitarul Central
banks	19/1	36/8	7/3
brokers	30/1		16/4
asset managers	30/0		
CSDs	0/1	0/4	1/1
other	2	67/8	
total	80/4	104/20	24/8

source: ECSDA

Clearing and direct participants may also perform the role of (a) register operators and (b) registration agents.

Register operators record ownership changes in the registration system. Registration agents record transfers of financial instruments related to transactions, donations and inheritance operations.

Clearing and Settlement System accounts: In the Clearing and Settlement System (CSS) intermediaries have direct account relationship. Intermediaries may open omnibus as well as individually segregated accounts for their clients. There are over 100.000 individually segregated accounts and more than 4000 omnibus accounts in the Clearing and Settlement System.At the same time CDAD handles 8m+ individual accounts on investor level (and some 400 omnibus accounts) in the Central Securities Register. (In comparison, Depozitarul in Romania also handles individual accounts with 8m+ investor accounts and 60+ omnibus accounts on its books, while in case of Hungary, KELER provides omnibus accounts for its intermediary participants - with the possibility to open individual subaccounts as well, but this latter is not frequently used.)

While the investor level segregation is a requirement for local investors, no such segregation happens with regards to foreign investors' holdings – their holdings are kept typically on an omnibus basis in the Central Securities Register

Participants need to open settlement and non-settlement cash accounts with banks that are direct participants in BNB's Real-time Interbank Gross Settlement System (RINGS) and Participants need to declare such cash accounts to CDAD.

For EUR settlement, CDAD participants need to have (and declare to CDAD) a cash account opened with a bank that is a participant in TARGET2 cash clearing.

In the Central Securities register there is a requirement to keep individual segregated accounts. The investor level segregation is a requirement for local investors and no such segregation happens with regards to foreign investors' holdings – their holdings are kept typically on an omnibus basis in the Central Securities Register.

The same issue of investor level segregation seems to be most pressing for the local fund industry, where – according to fund managers – the extra costs might create a strong competitive disadvantage against foreign investment funds, especially for regular investment schemes with smaller investment sizes and with regards to low risk/low yield funds more sensitive to cost elements (like money market or fixed income funds). Obviously, the compulsory segregation and its affiliated costs are not the only reason for the low level of local fund investments compared to investments by Bulgarian entities into foreign funds, but it is also a contributing factor.

Settlement: Participants instruct CDAD to settle transactions. CDAD provides Delivery-versus-Payment (DVP) settlement. Transactions settle on BIS Model 2 – securities settle on a gross, cash on a multilateral net basis. The settlement cycle is T+2 for BSE trades. For off-exchange transactions the settlement cycle is determined by the parties between T+0 (same day) to T+2.

CDAD operates three settlement batch runs throughout the settlement day at 10.30, 12.00 and 15.00. (there are also 14 non-settlement related batches.)

There is no partial settlement and no hold-and-release mechanism in CDAD[55]. As a comparison, Depozitarul Central provides hold-and-release mechanism, KELER operates both hold-and-release and partial settlement for its participants.

In case of lack of cash, purchase transactions are individually taken out from the netting process according to the priority rules until the net cash position can be settled. In the event of a failure to settle, transactions are recycled to next batch processing and if needed to next settlement date. For exchange transactions, the Settlement Guarantee Fund might be involved to facilitate settlement. For off-exchange transactions, no SGF funds are used, but unsettled transactions are recycled for the next 10 settlement days and then deleted from the clearing and settlement system.

Settlement Guarantee Fund (SGF): CDAD operates a Settlement Guarantee Fund to "guarantee" the settlement of transactions in financial instruments concluded on regulated markets and MTFs (as such the International segment and the BEAM market as well).[56]

The CDAD Settlement Guarantee Fund resources are mainly from the initial (fixed amount) and monthly cash contributions (calculated based on the previous 6 months' trade turnover of the respective participant) of CDAD members.[57] Currently, the SGF is not a risk related Fund and there are no regular calculations conducted with regards to the theoretic (required) size of such a guarantee fund.

Since 1997 there was no failed settlement with regards to BSE transactions and as a result the funds in the SGF were never utilised, according to the information provided by CDAD.

[55] It is worth mentioning that according to Art. 12 of Commission delegated regulation (EU) 2018/1229 CDAD (like the other comparator CSDs) is not legally obligated to offer such services.

[56] The Fund was originally managed by BSE Sofia AD and transferred to CDAD as of October 1, 2013.

[57] Before introducing the CCP service for the spot market, KELER operated a very similar SGF scheme with the same 6-months "look-back" period, calculated monthly. Also, KELER calculated and collected variation margins from participants on a daily basis – still without acting as CCP.

Registration: There is an obligatory interconnection between the Clearing and Settlement System (CSS) and the Registry System operated by CDAD. Upon settlement in the CSS, registration should be made in the registry system as well.

Register A and B: As a legacy of mass privatisation, another specificity of the Bulgarian market is the existence of two registers: Register A and Register B– both being part of the Central Securities Register.

Register A was created along the mass privatisation when 3.5 million Bulgarian residents received some shares. Securities held in Register A are in the name of beneficial owners – these securities are not under custody of any intermediary. In this Register currently there are over 2 million dormant accounts (roughly 40% of accounts) managed by the CSD. Typically, these dormant accounts have very low volumes (couple of shares) and the connection between the original owner and his/her heir has been lost, making it impossible to communicate with the current owner.

In Register B, on the other hand, financial intermediaries (CDAD participants) hold accounts and clients/investors are registered under these intermediaries.

There are movements between the two registers and the clearing and settlement system as well. On one hand traded securities are needed to be "transferred" to CSS and from Register A to Register B. This transfer can be initiated only by register operators. Transfers from Register B to Register A also frequently happen. Securities are kept in Register A for free and securities held here do not count when calculating intermediaries' contribution to the national guarantee scheme.

Corporate actions: CDAD operates an internet-based application for corporate action announcements and that is – according to CDAD – fully compliant with the Shareholders Right Directive II. As per the transposed Directive, issuers are obliged to inform their shareholders on upcoming corporate actions via CDAD and investment intermediaries. CDAD then sends ISO standard messages to its participants upon receipt of CA notifications from issuers.Participants, custodians are looking for a reliable, timely and machine-readable service and consider CDAD's initiative to set up such a central source of information a forward-looking one. Some custodians, however, noted that there is still sometimes a need to collect and process CA information manually.

POSA provides the option for listed companies for electronic voting at GMs. CDAD launched the EPOS platform aiming at facilitating the electronic voting at GMs in 2018 – but custodians claim that due to issuers' decisions it is still not widely used in practice.

It should be noted that while BEAM issuers do not fall within the scope of SRD, according to CDAD, EPOS is also available for these issuers. **IT system:** CDAD runs an IT software infrastructure that is developed internally. The original system was developed nearly 25 years ago along the set-up of CDAD. Its second version was introduced in 2017, its main element of change being the separation of settlement and registry modules.

During several interviews it has been raised by participants that they would like to see more investments going into CDAD's IT system. Some of the larger participants with sophisticated internal systems called the system outdated and felt that it hampers the timely and efficient development of their own internal systems. On the other hand, Due to the low turnover of the local capital market, some of the members do not develop back office systems and work by hand or use simple and outdated back office systems. For this reason, when CDAD launches new services or supplements the interface to members with new functionalities and messages, this leads to a requirement for these members to invest in upgrades of their own back office systems. There are often long discussions when innovations are introduced which sometimes even hinders their advancement.

Further IT developments will be required before joining T2S, however CDAD does not expect T2S related amendments to be extensive.

When discussing about future developments after joining T2S, CDAD's plans are rather focusing on the renewal of the registry system – where the requirements of individual account holders in respect of a more modern graphical user interface looks more pressing.

CDAD provides proprietary communication with CSD participants. SWIFT capabilities do exist – but are not used by the local market. CDAD claims that it is due to SWIFT costs as opposed to cheaper access through CDAD's system. During our interviews, however, some of the custodian banks were on the opinion that they would be interested in communicating with CDAD through SWIFT. On the other hand, larger participants usually interface their internal operations systems to CDAD's system, while smaller players key in transactions manually.

Cross-border links and international relationships:

Clearstream Banking SA (CBL) has an indirect link to CDAD via Eurobank Bulgaria AD (inward link).

CDAD also has an account with Clearstream, directly operated by the depository (outward link). This link makes settlement of trades in the international segment of BSE possible.

KELER, the Hungarian CSD also holds an account with CDAD, but the link is not operational.

CDAD is open to develop further links.

Due to ATHEXGroup's plans to introduce financial derivative clearing and settlement for Bulgarian products (single stock futures, index futures), CDAD and ATHEX CSD are about to build a link for providing collateral service. Potential cross-listing arrangements between BSE and ATHEX and cooperation in automatic lending and borrowing is also under consideration.

CDAD is a member of the European Central Securities Depositories Association (ECSDA) and - as the Bulgarian National Numbering Agency issuing ISIN codes for local securities – CDAD is also a full member of the Association of National Numbering Agencies (ANNA).

Contact with CDAD: In general, interviewed participants and representative associations claimed that there is a good, open-minded relationship, good communication especially on an informal level with CDAD. Where many of them would like to see development is the timeliness and depth and detail of information especially when introducing new functionality (several parties mentioned in this respect the recent development on settlement discipline).

TARGET2-Securities

CDAD currently is not a member of the ECB-operated TARGET2-Securities (T2S) platform but is preparing to join. CDAD's self-assessment was approved by the ECB's Market Infrastructure Board (MIB) in June 2022 and the Framework Agreement is expected to be offered for signature in early September this year with a target date for joining in September 2023. A two-step migration plan is about to be finalised: CDAD joins T2S with the Euro-denominated securities in September 2023, while all other instruments will be made available for settlement in T2S following Bulgaria's accession to the Eurozone.

According to plans, CDAD will not move individual accounts to T2S. So, from development point of view a "translation" will be required when moving between the CDAD and the T2S systems and a change to ISO20022 standards for SWIFT communication is also planned. The cost of joining T2S is not expected to be substantial. A conditional participation fee payable to the Eurosystem has been approved which will be used to cover T2S fees once CDAD joins the platform.

Bulgarian National Bank Depository (BNBGSSS)

In Bulgaria, government securities are deposited with a separate depository, the Government Securities Depository (BNBGSSS, Bulgarian National Bank Government Securities Settlement System) that is operated by the National Bank.

The Government Securities Depository was established in 1991 and is operational from 1992.

Participants, accounts, services, systems

Securities: All Bulgarian government securities issued domestically are fully dematerialised and are registered in the BNB depository, whether they are issued in the local market in BGN (currently 15 ISINs with a total nominal value of BGN9.2bn) or in EUR (1 ISIN with a nominal value of EUR234mn).

Participants: BNBGSSS members can be

- Primary Dealers (who are all banks)
- Banks (also can act as sub-depositories, ie. keep government securities on behalf of their own clients as well as for non-sub-depository members' clients)
- non-PD investment intermediaries
- (I)CSDs
- BNB (and other ESCB members)
- MOF
- other entities having a permission from the Minister of Finance and the Governor of the BNB.

Currently there are 21 bank members, including 3 branches of foreign banks and credit institutions licensed within the EU. Out of these bank participants 9 are also primary dealers..

Account management: BNB government securities depository participants must segregate own and client portfolios and can have three main accounts within the system (with the possibility to open sub-accounts):

(1) own portfolio account,

(2) customers' portfolio (omnibus) account and

(3) collateral account.

An important distinction, however, compared to the CDAD practice is that there is no client level segregation required in the GS Depository, the securities accounts are kept on an omnibus basis.

IT systems: BNBGSSS is a set of integrated systems that consist of the registration system for government securities (ESROT) and the settlement system (GSSS). Securities pledges are managed by a separate system (Register of Special Pledges, RSP).

ESROT is a straight-through processing, real time system. The system was originally developed in 2006 by a commercial vendor and since then has been upgraded several times.

Instructions can be submitted by participants both via SWIFT (ISO15022) or a VPN based web interface.

Settlement: Most of the secondary market trading (90%) in government bonds takes place on Bloomberg.

Both parties to a trade must submit settlement instructions to the ESROT system. The same applies for Bloomberg trades as well. Bloomberg sends an end of day report to BNBGSSS (at 16.30), but the report is used for reconciliation (control) purposes only.

Upon matching, ESROT generates settlement instructions which are then submitted to the Government Securities Settlement Accounts (GSSS) via a specialised interface. Transactions generated in ESROT cannot be cancelled or revoked by the participants.

GSSS is the account management and settlement system for government securities (both for the primary and the secondary market).

It provides Free-of-Payment (FOP) and Delivery-versus-Payment (DVP) settlement. DVP settlement was developed a couple of years ago. Settlement is based on BIS Model 1 – gross settlement of securities and gross settlement of cash. Settlement cycle can be as short as T+0.

Table 6.4 Type of transaction, year 2021

	Volume (BGN mns)
Outright DVP transactions	48.1
Repo (incl. reverse repo, DVP)	6,957.6
Transactions between participants' customers (FOP and DVP)	3,676.8

Source: statistics provided by BNB

DVP settlement in government securities transactions can be carried out in Bulgarian lev or euro

No settlement failures have been reported, although the system can provide recycling of failed transactions for up to 4 business days.

Cross-border links: Clearstream Banking SA (CBL) has a direct operated link to BNB via Eurobank Bulgaria AD. The inward link was developed at the end 2013 upon the request of the Ministry of Finance for receiving grants from the European Investment Bank (EIB) through credit lines for Bulgarian commercial banks for the financing programme for small and medium enterprises. Government securities are transferred through this link by ESROT participants for this purpose (without changing ownership). Hence currently only free of payment transactions are available through Clearstream and not utilised heavily (only 2 transactions in 2021).

Currently, the domestic government bonds issued (in BGN and in EUR, as of 31.03.2022) total BGN 9,637.1mn, out of which only BGN 42.2mn (0,44 %) is held by foreign investors – this is a very low figure. On the other hand, 2/3 of the overall Bulgarian debt is issued in EUR on the international securities markets – accessible to foreign investors.

From a cross-border investor's perspective, after Bulgaria joins the Eurozone (and thus the Bulgarian government securities getting similarly treated as any other Eurozone country's government debt), the current inefficient cross-border link with a missing DVP facility might mean that foreign investors will not access the Bulgarian local market and look for investment opportunities elsewhere. Although their share is already very low. (The GS Depository plans to join ECB's T2S, but the cross-border volume on the platform remains extremely low – around 1% of overall transactions.)

Contact with BNBGSSS: Some interviewed participants claimed that they would like to have more direct and detailed communication with the BNBGSSS, to receive more information regarding upcoming developments well in advance to get prepared with their own required developments as well. Some mentioned cases when participants only became aware of details of a system change during the testing phase.

TARGET2-Securities (T2S)

The BNB Governing Council adopted a decision (back in 2008) to connect the Government Securities Depository to the T2S platform after the official accession of Bulgaria to the Eurozone. Currently the objective of joining T2S is set to September 2023 – which is the same date as CDAD plans to join T2S. BNBGSSS participants were informed through an official letter about the BNB decision to connect BNBGSSS to T2S.

Single or multiple CSDs

Jurisdictions where several CSDs operate are usually the "product" of historical market developments. In Bulgaria, the BNB organised Government Securities Depository started its operation in 1992. The Bulgarian Stock Exchange Sofia was established in 1995, followed by the establishment of CDAD in 1996.

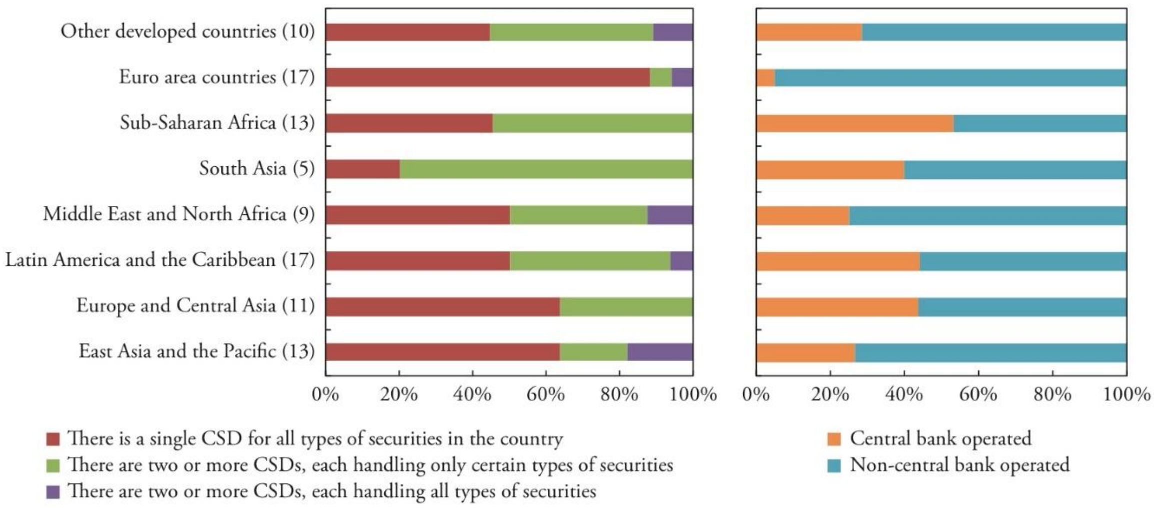
During our discussions with stakeholders, some of them mentioned that – primarily due to the relatively small size of the capital market - potential efficiency gains could be achieved by the merger of CDAD and BNB Depository. This is not a new issue on the Bulgarian capital market, but parties confirmed that no integration discussions are currently under way between the two depositories. It is also worth noting that in the national euro changeover plan it is envisaged to connect the two depositories to T2S as separate entities, which requires significant efforts and resources and would not allow to merge them in advance.

Theoretically efficiency gains could be realised on the level of the institutions, but more importantly – directly and indirectly - on the level of investors, due to potential economies of scale and scope. On the other hand, as one factor, the different account management models followed by CDAD and BNB Depository complicates the estimation of costs vs. benefits of a single CSD operation.

Single and multiple CSDs markets

Below is a summary regarding the organisation of CSDs across the different regions of the World. The figure is from the 2015 Global Payment Systems Survey. In Europe in most countries there is one single CSD to cover all types of securities.

Figure 1. Regional Differences in the Organization of Central Securities Depositories



Source: World Bank Global Payment Systems Survey 2015.

From another perspective, on a global basis only 45 of the 138 CSDs incorporated in the survey were operated by a central bank of which 38 handled government securities only.

In the European Union - apart from Bulgaria - currently there are only 3 other countries where the government securities are managed and settled by the local central bank:

- National Bank of Belgium,
- Bank of Greece and
- National Bank of Romania.

Ireland is in a unique situation in the euro area, there is currently no settlement infrastructure located in the country. Since Brexit the Irish market, including Irish government bonds settled in Euroclear Bank, Belgium.

Fee comparison

When looking at the post-trade costs of the Bulgarian market and comparing them to costs of the comparator CSDs in Romania and Hungary, the first step is to compare total fee income.

According to the ECSDA (European CSD Association) statistics, we find that among the EU countries CDAD has the lowest EUR revenue.[58]

Table 6.5 CSD revenues

Revenue (incl. financial rev.), year 2020	EUR '000s
CDAD	1,296
KELER* (excl. net interest income)	18,202
Depozitarul Central	3,301

source: ECSDA Members Database

Looking at the breakdown of CDAD's fee income over the past three years, we can see an increase in overall income (17.7% from 2018 to 2020).

Table 6.6 CDAD income per fee type (BGN '000s)

	2018	2019	2020
fees for register maintenance	859 40%	944 39%	906 35%
fees for performing services of members of CDAD	445 20%	567 23%	690 27%
registration of special pledges	312	222	292
annual membership fee	123	208	193
CA management agency services (interest and dividend trsf.)	158	188	180
registration/deregistration	164	176	152
closing issuers' accounts	23	35	50
registration agent fees	15	27	12
reference information and other services	49	52	54
total	2148	2419	2529

[58] BNB in its functionality as issuer CSD for Bulgarian government securities is not a member of ECSDA (similarly as other, central bank run European CSDs in Belgium, Greece and Romania). No similar figures were found on BNB's website.

It is interesting to see – even though with many caveats – what is the per member (ECSDA statistics) fee income of the different CSDs:

Table 6.7 CSD fee income and members

CSD, year 2020	Fee income (EUR '000s)	number of participants	fee/participant, (EUR '000s)
CDAD	1,296	84	15.42
KELER	18,202	124	146.79
Depozitarul Central	3,301	32	103.16

In the following table the key fee categories are compared across CSDs.

	CD AD		BNB	
category	description	rate	description	rate
issuance and maintenance fees (issuers)	**initial registration of securities issue**		NA	
	shares, fixed component	EUR 510		
	additional component, per account	EUR 0.51		
	with a maximum amount of	EUR 7650		
	bonds, fixed component	EUR 765		
	additional component, per account	EUR 0.51		
	with a maximum amount of	EUR 2550		
	monthly fee		NA	
	shares, fixed component	EUR 28		
	additional fee, number of accounts, brackets	:UR1- EUR61		
	bonds, fixed component	EUR 46		
	additional fee, number of accounts, brackets	:UR1- EUR61		
transaction fees (participants)	financial instrument transfer fee	EUR 0.23	transfer fee, paid by both parties	EUR 2.55
	repo, reverse repo	EUR 2.55		
	personal data change in Registration System	EUR 2.04		

	KELER		Depozitarul Central	
category	description	rate	descrition	rate
issuance and maintenance fees (issuers)	**issuance of securities**		**admission/yearly maintenance of financial instruments**	
	below EUR 250.000 nominal value	EUR 125	based on number of holders, brackets, lowest	EUR 2300
	above EUR 250.000 nominal value	EUR 412	based on number of holders, brackets, highest	EUR 38518
			admission/yearly maintenance of government securities	EUR 0
	NA		see above	
transaction fees (participants)	Stock Exchange (SE) multilateral net sttlmt, securities leg. debit, credit	EUR 2	Stock Exchange (SE) net clearing and sttlmt. equities. debit, credit	0.0085%
	SE multilateral net sttlmt, cash leg. debit	EUR 1.5	SE net clearing and sttlmt. bonds. debit, credit	0.0020%
	FOP. debit and credit	EUR 1.5	SE net clearing and sttlmt. govsecs. debit, credit	0.0010%
	OTC, primary mkt DVP, repo. debit and credit	EUR 2.25	Stock Exchange (SE) gross clearing and sttlmt. equities. debit, credit. max. EUR 80/tr	0.095%
			SE gross clearing and sttlmt. bonds. debit, credit. max. EUR 30/tr	0.025%
			SE gross clearing and sttlmt. govsecs. debit, credit. max. EUR 20/tr	0.010%
			OTC gross sttlmt. debit, credit. max. EUR 20.	0.095%
			matching fee. equities	0.08%

	CD AD		BNB	
category	description	rate	description	rate
annual membership fee (participants)	**affiliation installment for membership**			
	for clearing members	EUR 3060		
	for direct members	EUR 2550		
	for non-clearing members	EUR 1020		
	annual membership		**annual membership**	
	for clearing members	EUR 2244	for participation in ESROT system	EUR 1836
	for direct members	EUR 1071	for maintenance of register, account keeping	EUR 1836
	for non-clearing members	EUR 510		
safekeeping fee (participants)	NA		NA	

	KELER		Depozitarul Central	
category	description	rate	descrition	rate
annual membership fee (participants)			**admission fee**	
			for participants - intermediaries	EUR 16993
			for participants - involved in govsec sttlmt only	EUR 425
			for custodian agents	EUR 21241
	annual membership		**annual membership**	
	for keeping of account	EUR 300	for participants - intermediaries	EUR 364
			for participants - involved in govsec sttlmt only	EUR 364
			for custodian agents	EUR 11652
safekeeping fee (participants)	based on portfolio value, charged monthly		based on portfolio value, charged monthly	
	all types of securities, sliding scale fee, from	0.0096% pa	for participants - involved in govsec sttlmt only	0.015% pa
	all types of securities, sliding scale fee, to	0.0068% pa	for custodian agents	0.015% pa

All-in-all, while the comparison is by far not exhaustive, we can say that Bulgarian CSD remain on the less expensive side.

It is worth mentioning here that some of the Associations we interviewed were of the opinion that the higher trading and settlement costs to Bulgarian entities can be attributed much rather to the EU regulations that are seen as disproportionate for smaller markets, than to the costs charged by local trading (BSE) and post-trading (CDAD) infrastructures or supervisory costs (FSC) which are considered relatively insignificant.

Clearing arrangements in Bulgaria, introduction of Central Counterparty clearing

Current clearing arrangements in Bulgaria

Currently, **BSE spot products** (all market segments) are cleared within CDAD.

Transactions are processed according to set priorities of the CDAD system (CDAD Rules Art. 134). All DVP transactions (including those from BSE trades) are netted out on the cash leg (BIS Model 2) after successful reservation of the securities (Art. 136). Cash netting occurs before each settlement session for each participant. In case of insufficient funds, transactions are taken out of the net calculation one-by-one according to the priorities of the CDAD system.

CDAD provides a limited performance guarantee model for BSE trades and operates a Settlement Guarantee Fund (Part IV. Section X on Settlement Guarantee Fund).

With regards to the **government securities secondary market** trades concluded on the Bloomberg platform (90%) or on the OTC market, BNB GS Depository does not provide any guarantee. Instructions are received from trading parties and settled as instructed (see more above).

Central Counterparty in Bulgaria

As described, there are no Central Counterparties established in Bulgaria yet, however, there has been some significant developments in the past years.

A more recent announcement was made about the framework agreement signed by the Bulgarian Stock Exchange and the Athens Stock Exchange (ATHEX) this January. "The scope of the agreement includes the introduction of single stock futures having as underlying selected stocks traded at BSE and index futures, having as underlying the main BSE index SOFIX. The products are planned to be traded on the derivative market of the Athens Stock Exchange and the clearing to be provided by ATHEXClear in accordance with the relevant requirements of EMIR and EU legislation. The Euro will be the currency for both trading and clearing of the instruments."

The plan to launch Bulgarian derivatives in ATHEX is set to end Q3/early Q4 of 2022.

7 Legal and Regulatory Framework

During the interviews we frequently heard concerns that the legal and regulatory environment is a barrier to capital market development. The criticism takes several forms and their validity is analysed below in this section. Furthermore, in the comparative analysis attached as a schedule to this report we analyse the implementation in Bulgarian law of the main EU harmonising measures with a focus on specific topics in the field of capital markets most notably Market Abuse Regulation, Prospectus Regulation, Transparency Directive, Shareholder Rights Directive, MiFID II, UCITS Directive, Takeover Directive and the AIFM Directive and make a conclusion on any instances of local more or less stringent regime.

1 EU regulatory framework

The EU regulatory framework (from which the Bulgarian rules are derived) is more appropriate for larger, more developed markets and not proportionate to the smaller, less developed Bulgarian market. To meet these requirements requires proportionately larger investments from all stakeholders on a smaller marketplace. In addition, frequent changes to EU Regulatory framework and its subsequent implementation in national law creates further administrative burdens and costs for local participants to achieve compliance with new rules.

Examples of this include

- *the rules on providing investment research*

  Under MiFID II, investment firms have to establish a price for investment research separately from execution services. Under the previous regime the traditional business model of investment firms is to provide bundled research and execution services as portfolio management inducement. Market response suggests that if the unbundling rules lead to cuts in aggregate research spending this may put smaller investment firms in a competitive disadvantage as compared to their larger peers.

- *the reporting and compliance requirements under MiFID II / MiFIR regime applicable to investment firms*

  Market response suggests that the reporting and compliance requirements under MiFID II / MiFIR regime create disproportionate administrative burden for investment firms operating on the smaller and less developed Bulgarian capital market. Examples include:

  (1) stricter product governance rules;

  (2) enhanced investor protection by introducing more stringent best execution rules including requirements to publish data on execution quality;

  (3) new requirements on transaction and trade reporting with broader scope of assets and details to be reported;

  (4) more stringent corporate governance requirements, strengthened criteria for qualified senior management, stricter control on remunerations;

  (5) product intervention and strengthened supervision with stricter sanctions.

- *EMIR requirements for authorisation of a CCP to provide clearing services and in particular capital requirements.*

  The EMIR requirements for authorisation of a CCP to provide clearing services and in particular the capital requirements, set a permanent and available initial capital of at least EUR 7,5 million for a CCP to be authorized to provide clearing services (Art. 16 EMIR). While this threshold may be justified for a well-developed market, it is burdensome for an underdeveloped capital market such as the Bulgarian one.

2 Transposition into Bulgarian law

The Treaty on the Functioning of the European Union (Art. 114) requires maximum harmonization of the provisions laid down by national law of the Member States which directly affect the establishment or functioning of the EU internal market (thus including the capital markets sector). This legal basis provides no possibility for Member States to maintain or establish provisions (whether more or less stringent than harmonizing rules) departing from EU harmonizing measures. Thus, the margin of discretion available to Member States to deviate from harmonized rules is entirely determined by the directive itself.

On that basis we analysed examples of national measures being introduced when Bulgaria transposes EU directives into Bulgarian law in addition to EU harmonizing rules which in some cases are perceived by market participants as administrative burden or a barrier to the development of the capital market.

Examples include:

- *"Hardening" of EU "soft law" (ESMA guidelines and recommendations)*

  As a tool to promote supervisory convergence[59] European Supervisory Authorities (such as ESMA, EBA and EIOPA) have the power to issue guidelines and recommendations[60] which are directed to competent authorities and/or to financial market participants. These guidelines and recommendations are not legally binding documents but are subject to the commonly called "comply or explain process", under which competent authorities, and in some circumstances other market participants, notify the relevant ESA(s) on their intention to comply, or explain why they do not propose to comply. Although non-compliance with guidelines could indicate an underlying breach of EU law this approach gives wider discretion to local regulators to take into account local market conditions.

  For the purpose of implementation of ESA guidelines a legislative delegation was introduced in Bulgarian law to give powers to the FSC to adopt regulations to implement requirements, criteria and conditions stemming from these guidelines into national law. On that basis "soft law" measures adopted by the ESAs are introduced into national law as legally binding rules. This approach is perceived by market participants as increasing the administrative burden over supervised entities.

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[59] Consistent application of EU law across jurisdictions

[60] Such powers are entrusted by the relevant EU Regulation establishing the respective ESA, such as Article 16 of *Regulation 1095/2010* applicable to ESMA.

- *Acquisition of shareholdings by way of occupation may now be carried out by supervised entities.*

  Following a recent amendment of the Bulgarian Law on Credit Institutions which aimed to implement Directive (EU) 2019/878 amending Directive 2013/36/EU the activities of acquiring shareholdings by way of occupation may now be carried out by financial institutions which under Bulgarian law are subject to registration with the BNB and thus to specific capital requirements among others which are supervised by the BNB unless they are pure industrial holdings. The registration requirement is a local specific and before the above amendment only applied to the activity of acquiring shareholdings in credit institutions and other financial institutions. Directive 2013/36/EU (in its Article 34) is clear to put under prudential supervision financial institutions if they are, broadly stated, subsidiaries or parent undertakings of supervised entities. No such distinction is evident under Bulgarian law. It may be sustained that the legal regime governing AIFs and their fund managers should preclude the application of this registration regime. However, this registration requirement may be interpreted to also apply to AIFs in addition to the fund managers of AIFs which goes against the AIFM Directive requiring the authorization of the fund managers of AIFs only. The discussed legislative amendments potentially make subject to the registration requirement (and the capital requirements it entails among others) and put under supervision also unregulated entities such as investment vehicles used by entrepreneurs for their own investment activities (i.e. where no asset management services are provided to third parties).

- *Maintenance of Unit-holders Registries by Asset Management Companies*

  Under UCITS Directive (its Annex II) the regular business of an asset management company shall include the function of maintenance of unit-holders registries. Under Bulgarian law implementing UCITS Directive asset management companies may keep unit-holders registries only if they manage UCITS originating from another Member State and not for UCITS located in Bulgaria. This requirement stems from the general obligation under POSA to keep segregated end-investors accounts at the CSD level.

- *Licensing Regime for Securitization Special Purpose Entities*

  Strengthening the role of securitization as an instrument available to banks to help them provide sustainable and stable funding to the real economy is one of the targets of the EU Capital Markets Union 2020 Action Plan. While this is not a requirement of the Securitization Regulation (Regulation (EU) 2017/2402), Bulgarian law introduced a licensing requirement for securitization special purpose entities (SSPE) designated for securitizations compliant with the Securitization Regulation.

Furthermore, some players criticised the lengthy national process for transposition and the very limited time to adapt accordingly after its adoption while at the same time authorities urge stakeholders to get more involved in public consultations during the legislative process of implementing EU directives.

3 Exercise of flexibility

We further analysed examples where Bulgarian legislation deviates from EU harmonizing measures by maintaining or establishing less or more stringent national measures.

Examples include:

- *Requiring quarterly in addition to annual and semi-annual financial reporting from listed companies.*

  Indeed, Article 3 of the Transparency Directive allows derogation by home Member States from the maximum harmonizing rule that national law may not require issuers to publish periodic financial information on a more frequent basis than the annual and half-yearly financial reports. In accordance with POSA issuers are required to publish quarterly financial information which is in alleviated format and scope compared to the annual and half-yearly financial reports.

  However, the use of this derogation is perceived by some market participants as placing disproportionate administrative burden in particular for smaller issuers without necessarily improving the quality of disclosure of regulated information. Market response from investors' side tends to find such additional disclosure as proportionate measure which in their perception achieved better price discovery. Furthermore, transparency is not only an issue of publicly disclosing certain circumstances, but rather making them actually available to the potential investors. Although company data is made available on various access points as required by law there is a perception of investors on the market that such data is fragmented and scattered. Regulated information and disclosed inside information are not always presented in an easily accessible and searchable way.

- *Disclosure and approval of material transactions in a listed company*

  Bulgarian law maintained stricter rules than is required under the Shareholder Rights Directive (following its amendment by Directive (EU) 2017/828) on disclosure and approval of material related party transactions in a listed company extending also to material transactions with unrelated parties, while the consequences of failure to obtain prior shareholder/administrative body approval is nullity of the transaction.

  The Shareholder Rights Directive does not prevent Member States from adopting or maintaining in force more stringent provisions to further facilitate the exercise of shareholder rights, to encourage shareholder engagement and to protect the interests of minority shareholders. Historically the stricter rules have been introduced as minority shareholders protection measure, while improvement of corporate governance and fiduciary duty concepts under Bulgarian law might prove to be sufficiently effective when it comes to transactions with unrelated parties where the shareholders' approval will be controlled by the vote of the majority shareholders. The consequences of nullity of the transaction which lacks corporate approval might affect legitimate interests of third parties who may have acted in good faith especially when it comes to transactions with unrelated parties.

- *Additional thresholds for notification of holdings in listed companies*

  National law introduced additional thresholds for notification of holdings of voting rights in listed companies to what is required under the Transparency Directive (Article 9). Under Bulgarian law the disclosure requirement applies to the thresholds of every multiple of 5 %, while the thresholds under the Transparency Directive are fewer after the holding reaches 30 %. The Transparency Directive allows Member States to set lower and additional thresholds for notification of holdings in listed companies. It is the perception of the market participants that these requirements may lead to unnecessary administrative burden for shareholders with qualified holdings.

- *Additional exemption from the requirement for publication of prospectus under the Prospectus Regulation applicable to listings on multilateral trading facilities (MTFs) such as BEAM.*

  Bulgaria has made use of the exemption under Article 3(2) of the Prospectus Regulation from the requirement for publication of prospectus applicable to public offers and listings on MTFs (such as BEAM) where the total consideration is less than the monetary amount of EUR 8 million calculated over a period of 12 months.

- *Rules on administrative sanctions for infringements*

  Under EU law Members States are allowed some flexibility in establishing the rules on types and amounts of sanctions to the extent the standard provided by the EU directives is complied with.

  EU legislation (for example MiFID II, the UCITS Directive, the MAR) usually provides for a minimum cap on the maximum of the administrative sanctions for infringements. Bulgarian implementing measures provide for a floor sanction and a maximum cap.

  Some of the floor sanctions are perceived by certain market participants to be relatively high especially those applicable to investment firms for violations of MiFID II implementing legislation. However, the FSC has the discretion to refrain from imposing even the floor sanctions if the breach qualifies as a minor case when it comes to its effect on public interest but instead to issue a warning to the respective entity. In addition, there is also a recently introduced settlement process as part of the administrative sanctions procedure which allows settlements which may reduce the amount of the sanction imposed.

- *National legislative investment limitations on pension funds*

  Some of the limitations on the investment activities of pension funds, in particular mandatory universal and occupational pension funds ("MPFs") and voluntary pension funds including such with occupational schemes ("VPFs") are perceived by market participants to be possible barriers for the development of the capital market. Some of the investment limits are seen as too low or restrictive by market players who wish to attract such investments. Other examples are:

  (1) Pension funds are not allowed to invest in securities which are admitted to trading on a multilateral trading facility (MTF) (such as BEAM). Only VPFs with occupational schemes are allowed to invest up to 5% of their assets in corporate bonds or shares, other than shares in UCITS, traded on MTFs and OTFs.

  (2) MPFs and VPFs are allowed to invest in shares and units of AIFs if they are managed by licensed AIFs managers, but certain regulatory restrictions precluding pension funds to invest in instruments which are not fully paid in are an impediment to such investments because the market standard is that investments in AIFs are

made on committed basis. National investment funds which are not UCITS and may be managed by either asset management companies or licensed AIFs managers are not explicitly provided as eligible assets for investments by pension funds.

- *Chapter V of UCITS Directive sets the minimum conditions for authorization of an investment company that has not designated a management company (self-managed investment company) by the competent authorities of its home Member State. Bulgarian law does not allow self-managed investment companies which qualify as UCITS and always requires that UCITS should be managed by a licensed asset management company.*

4 Regulatory practice and processes

- *Regulatory processes are slow.* Examples include:

  As a barrier to listing to a regulated market participants identify the time required to get approval of the prospectus, which they feel is too long, especially in a rapidly changing local and international economic environment. The procedure and time limits for approval of the prospectus are set by the Prospectus Regulation and the slow approval process is not due to local implementing measures. However, the regulator is not always perceived to act efficiently during the prospectus approval process and tends to make use of the full time limits set by the Prospectus Regulation while the latter requires it to inform issuers promptly of identified deficiencies in the prospectus disclosures. The regulator tends to rely on official written communication with issuers rather than more constructive informal dialogue. The long approval process may in part be attributed to the quality of disclosures in draft prospectuses submitted for approval where the issuers tend to rely on the regulator to instruct them on required disclosures rather than on their own liability for the prospectus contents. Issuers also rarely make use of fast-track or simplified regimes available under the Prospectus Regulation such as those available for frequent issuers or secondary issuances or the recently introduced EU Recovery Prospectus regime.

- *Regulatory practices and processes tend to be formalistic (prioritise form over substance) and regulators are not always familiar with market practices*

  The objectives of the financial supervision exercised by the FSC in the field of capital market as laid down by law is not only the protection of investors but also to procure stability, transparency and credibility of the capital market and create appropriate and stable market infrastructures. Thus, the development of the capital market is one of the objectives of financial supervision. In its approach to supervision the regulator prioritises investor protection over the development of the market which results in its tendency to be more restrictive. Although the regulator participates in initiatives for the development of the capital market such as the 2016 Strategy for the Development of the Bulgarian Capital Market, this objective is not sufficiently enshrined in the supervisory process.

  Regulators are also criticized among market participants of being overly formalistic, inefficient and not always familiar with market practices. A positive development in this respect is a recently introduced policy by the FSC of soft measures where the regulator does not immediately impose sanctions or coercive measures for identified breaches but first allows the regulated entity to take remedial action.

Regulators do not fully avail themselves of their powers to give general instructions on law interpretation to support harmonised and transparent approach to supervision.

- *FSC website*

  The data published in public registries and on the FSC website (such as public disclosure of infringements, data on authorised entities, etc.) is not always updated and not easily searchable. This could be a real barrier to more active participation on the capital markets of retail investors and to building their trust in the capital markets.

MARKET ABUSE

Key Legislation:

Market Abuse Regulation (MAR)

Commission Implementing Directive (EU) 2015/2392

Implementation of Measures Against Market Abuse with Financial Instruments Act (MAA)

FSC Ordinance No. 65 of 22 Mar 2019

Subject	EU Provision	BG Provision	Comments
1. Scope and subject matter	Prevent insider dealing, the unlawful disclosure of inside information and market manipulation (market abuse) with respect to financial instruments.	Prevent insider dealing, the unlawful disclosure of inside information and market manipulation (market abuse) with respect to financial instruments.	Equivalent provisions
2. Competent authority powers	MAR provides for certain powers of the national competent authorities with respect to prevention of market abuse.	FSC is the Competent authority within the application of MAR. No additional powers have been vested in the FSC. The powers are exercised by the deputy-chairman of the commission.	N/A
3. Accepted market practices	Article 13 of MAR allows for the competent authority to adopt "accepted market practices" which do not constitute a breach of the anti-market manipulation legislation.	The FSC has not adopted such practices.	If considered necessary, subject to the procedure laid down in Article 13 of MAR, the FSC may consider adopting such accepted market practices.

Subject	EU Provision	BG Provision	Comments
4. Consequences of market abuse transactions	MAR does not deal with legal consequences of transactions concluded as a result of market abuse.	Market abuse does not invalidate the transaction per-se.	MAR does not render such market abuse transactions null and void.
5. Coercive administrative measures	MAR requires that the Member States introduce a minimum of coercive administrative measures available to the local competent authority.	The Bulgarian MAA mirrors all measures provided for in MAR without any additional provisions, upgrading the MAR regulations.	Equivalent provisions
6. Sanctions	MAR also provides for minimum caps on the financial sanction for market abuse.	MAA implemented the minimum caps on financial sanctions and provide for a floor sanction	There is a perception of the market participants that the levels of the floor sanctions need to be further analysed whether they are proportionate given the size of the market.
	N/A	Under MAA assets obtained as a result of market abuse may be confiscated.	N/A

DISTANCE MARKETING OF FINANCIAL INSTRUMENTS

Key Legislation:

Financial Services (Distance Marketing) Directive (DMD)

Distance Marketing of Financial Services Act (DMA)

Subject	EU Provision	BG Provision	Comments
1. Scope	The DMD regulates the distance marketing of consumer financial services to consumers.	The scope of the DMA is in general aligned with the DMD.	Equivalent provisions While the scope of the DMD and local legislation is generally the same, Bulgaria has used its discretion to impose certain additional provisions (such as nullity of covenants limiting the liability of the financial services provider, etc.).
2. Information Provided to the Customer	In accordance with the DMD Member States shall ensure the provision of certain pre-contractual information and data to the consumer, when distance contracts are conducted.	The DMA transposes the DMD's requirements with respect to the information provided to the consumer without any additional local regulations. Such information includes pre-contractual data (regarding the supplier, the financial service, the distance contract, and redress) and specific information undertakings when the contract is concluded via voice telephony communications. This includes the total price of the offered financial services, whether the consumer has the right to cancel the contract with no penalties, if the offered services are related to taxes and other levies, etc.	Equivalent provisions

Subject	EU Provision	BG Provision	Comments
3. Unsolicited Services and Notification	In terms of unsolicited services and communication, the DMD is open-ended as it outlines the scope of protection and leaves to the Member States to decide on the precise measures.	In using its discretion, Bulgaria has introduced adequate protective measures, which are a balanced intersection between consumer protection and regulation of the financial sector.	
4. Sanctions	The DMD outlines the general framework of the sanctions and provides that such sanctions must be effective, proportionate and dissuasive.	The breach of provisions of the DMA may only lead to financial sanctions and fines, whereas no other punitive or coercive measures may be imposed. Whereas the latter measures are in no way mandatory, we should note however that the fines (denominated in EUR) are relatively low, as they range from approx. EUR 125 to EUR 2500.	These sanctions were so defined in 2006, when the act was initially adopted but Bulgarian financial markets have developed over the span of 16 years, so have the frequency of use of distance financial marketing. Therefore, the sanctions regime may be analysed as to whether it is proportionate given the current development of the market and the revision of the Directive.

PUBLIC OFFERING AND TRADING OF SECURITIES

Key Legislation:

Public Offering of Securities Act (POSA)

Markets in Financial Instruments Act (MiFIA)

CSD Rules

CSDR

Investor Compensations Schemes Directive (ICSD)

Prospectus Regulation

Transparency Directive

Subject	EU Provision	BG Provision	Comments
1. Public offering of securities	Generic prospectus requirements including exemptions from prospectus requirements as set out in the Prospectus Regulation (including optional exemptions under Art. 3).	Bulgaria has made use of the exemption under Article 3(2) of the Prospectus Regulation from the requirement for publication of prospectus applicable to public offers and listings on MTFs (such as BEAM) where the total consideration is less than the monetary amount of EUR 8 million calculated over a period of 12 months.	Equivalent provisions Optional exemption
2. Information to be disclosed by way of the Prospectus (Prospectus contents)	Requirements as set out in the Prospectus Regulation (including those of Art. 6, 7, 8 and 13) and Delegated Regulation (EU) 2019/980.	Bulgarian legislation is fully compliant with the provisions of the Prospectus Regulation on the subject matter.	Equivalent provisions

2.1. Prospectus approval	Requirements as set out in the Prospectus Regulation (including those of Art. 12 and 20).	Bulgarian legislation is fully compliant with the provisions of the Prospectus Regulation on the subject matter.	Equivalent provisions
3. Issuers			
3.1. Takeover Bid	Under the Takeover Directive any individual or legal entity who acquires directly or indirectly or through persons acting in concert with them sufficient voting rights in an Issuer, giving them control over that issuer is obliged to make a public offer in the form of a takeover bid as a means of protecting the minority shareholders. The Member States decide what percentage of voting rights confers control over the company. Member States shall ensure that a decision to make a takeover bid is made public without delay and that the supervisory authority is informed of the takeover bid.	According to the Bulgarian legislation (under Chapter 11, Section 2 of the POSA) a mandatory takeover bid should be published for the acquisition of all remaining shares in case any person acquires, directly or through related parties including through persons acting in concert: (1) more than 1/3 of the voting rights in the shares of the issuer where no one holds more than 50 % of the voting rights; (2) more than 50 % of the voting rights or (3) more than 2/3 of the voting rights. A voluntary takeover bid option for the acquisition of all remaining voting rights is available if a threshold of more than 90 % of the voting rights is reached. A voluntary takeover bid option for the acquisition of more than 1/3 of the voting rights is available if a threshold of more than 5 % of the voting rights is reached. A squeeze-out option which binds all remaining shareholders to sell their shares to the offeror is available if as a result of a takeover bid the	The Bulgarian legislator has made appropriate use of its discretion on how to implement the Directive.

		threshold of over 95 % of the voting rights is reached.	
3.2. Major holdings	The Transparency Directive (Article 9) introduces a disclosure requirement, where a shareholder acquires or disposes of shares in an issuer representing a major holding. Such shareholder shall disclose to the issuer of the voting rights held in the issuer as a result of the acquisition or disposal where the thresholds of 5 %, 10 %, 15 %, 20 %, 25 %, 30 %, 50 % and 75 % are reached. The Transparency Directive allows Member States to set lower and additional thresholds for notification of holdings in listed companies.	National law introduced additional thresholds for notification of holdings of voting rights in listed companies to what is required under the Transparency Directive. Under Bulgarian law the disclosure requirement applies to the thresholds of every multiple of 5 %, while the thresholds under the Transparency Directive are fewer after the holding reaches 30 %.	It is the perception of the market participants that these requirements may lead to unnecessary administrative burden for shareholders with qualified holdings.
3.3. Related party and material transactions	The Shareholder Rights Directive (following its amendment by Directive (EU) 2017/828) sets out requirements for disclosure and corporate approval of certain related-party material transactions. The Directive gives Member States some amount of discretion with respect to thresholds and particular terms of approval and disclosure. Further Member States have a certain degree of discretion, when defining material transactions. Member States shall set one or more	Bulgarian law maintained stricter rules than is required under the Shareholder Rights Directive (following its amendment by Directive (EU) 2017/828) on disclosure and approval of material related party transactions in a listed company extending also to material transactions with unrelated parties, while the consequences of failure to obtain prior shareholder/administrative body approval is nullity of the transaction.	Historically the stricter rules have been introduced as minority shareholders protection measure, while improvement of corporate governance and fiduciary duty concepts under Bulgarian law might prove to be sufficiently effective especially in respect of transactions with unrelated parties where the shareholders' approval will be controlled by the vote of the majority shareholders. The consequences of nullity of the transaction which lacks corporate approval may affect legitimate interests of third parties who may have

	quantitative ratios based on the impact of the transaction on the financial position, revenues, assets, capitalisation, including equity, or turnover of the company or take into account the nature of transaction and the position of the related party. The Shareholder Rights Directive does not prevent Member States from adopting or maintaining in force more stringent provisions to further facilitate the exercise of shareholder rights, to encourage shareholder engagement and to protect the interests of minority shareholders.		acted in good faith especially when it comes to transactions with unrelated parties.
3.4. Disclosure of annual, semi-annual and quarterly financial information	The Transparency Directive requires disclosure of annual and semi-annual financial statements by Issuers. Article 3 of the Transparency Directive allows derogation by home Member States from the maximum harmonizing rule that national law may not require issuers to publish periodic financial information on a more frequent basis than the annual and half-yearly financial reports.	Bulgarian legislation imposes more stringent requirements, such as requirement to disclose quarterly in addition to annual and semi-annual financial information.	The reporting requirements are introduced in order to facilitate investor protection. Responses from some market players suggest that the stricter provisions place disproportionate administrative burden in particular for smaller issuers without necessarily improving the quality of disclosure of regulated information. On the other hand, market response from investors' side tends to find such additional disclosure to be a proportionate measure which in their perception achieved better price discovery. Furthermore, transparency is not only an issue of publicly disclosing certain circumstances, but rather making them actually available to the potential investors. Although company data is made available on various access points as required by law there is a

			perception of investors on the market that company data is fragmented and scattered. Regulated information and disclosed inside information are not always presented in an easily accessible and searchable way.
3.5. Ongoing reporting	The Transparency Directive sets-out certain ongoing reporting requirements. For instance, an Issuer shall make public two statements by its management within the financial year. These statements shall include information with respect to the Issuer's (and its subsidiaries') financial standing, material transactions, etc.	The requirements of Bulgarian legislation in this respect mirror all measures provided for in the Transparency Directive.	Equivalent provisions
4. Investor Protection			
4.1. Investor Compensation	The ICSD provides that each Member State shall ensure an investor compensation mechanism.	Bulgarian law has implemented the ICSD, and an Investor Compensation Fund is established in Bulgaria.	Equivalent provisions
5. CSD Accounts	The CSDR requires that a Central Securities Depository (CSD) keeps both options for omnibus and segregated client accounts while a participant in a CSD shall offer its clients at least the choice between omnibus and individual client segregation. CSDR (Article 38(5) paragraph 2) provides for derogation from this requirement and member states may	The POSA allows for investment firms to open and maintain omnibus accounts in the Central Depositary AD (CDAD) for their foreign clients. Article 136 of POSA requires that CDAD keeps individual segregated accounts in the Central Securities Register for all financial instruments held by Bulgarian investors while allowing omnibus accounts for instruments held for the account of foreign investors.	The requirement in the POSA to record the end investors in segregated accounts by the Bulgarian CSD, including the unit-holders is disputed by some market players as it creates additional costs on domestic fund managers which foreign fund managers do not face.

	maintain local rules which allow only segregated accounts.		

COLLECTIVE INVESTMENT UNDERTAKINGS

Key Legislation:

Collective Investment Schemes and Other Collective Investments Undertakings Act (CISA)

UCITS Directive

Directive 2014/91/EU

Directive (EU) 2019/1160

Alternative Investment Funds Managers Directive (AIFMD)

Subject	EU Provision	BG Provision	Comments
1. Licensing/Authorization Criteria			
1.1. Common Funds (Contractual Fund as per CISA)	The UCITS Directive introduces authorisation requirement to take up business as a common fund. The UCITS Directive sets as a condition for authorisation of a common fund the approval by the supervisory authority of 1) management company; 2) the investment fund rules, and 3) the choice of depositary. The competent supervisory authority shall not authorise an UCITS if (among others): ● the directors of the UCITS's depositary are not of sufficiently good repute or are not sufficiently experienced; ● the UCITS is legally prevented (for example, through a provision in the fund rules or instruments	In terms of authorisation rules for taking up business as UCITS, there appears to be coherence between the EU and national legislation. CISA sets out a procedural limitation of 6 months before a new application is admissible in case of an initial refusal.	Equivalent provision

Subject	EU Provision	BG Provision	Comments
	of incorporation) from marketing its units in its home Member State; ● the management company does not comply with the UCITS Directive.		
1.2. Investment Company	The UCITS Directive introduces authorisation requirement to take up business as an investment company. The UCITS Directive sets as a condition for authorisation of an investment company the approval by the supervisory authority of 1) instruments of incorporation and 2) the choice of depositary, and, where relevant, 3) the designated management company. Chapter V of the UCITS Directive sets the minimum conditions for authorization of an investment company that has not designated a management company (self-managed investment company) by the competent authorities of its home Member State.	Bulgarian law does not allow self-managed investment companies which qualify as UCITS and always requires that UCITS should be managed by a licensed asset management company. To that effect CISA (Article 15) provides that the authorisation of an investment company shall be refused if its management company has no authorisation under the UCITS Directive. On the other hand, the minimally required registered capital according to CISA, as well as the minimally required average monthly net asset value, must be 500 000 BGN (less than the 300 000 EUR provisioned in the Directive).	Market response suggests that the lack of authorisation regime for self-managed investment companies may increase administrative burden where there will be no other portfolios of assets under management except for the portfolio of the investment company.
1.3. Management Company	The UCITS Directive introduces authorisation requirement to take up business as a management company and sets-out a detailed list (Art. 7) of capital, financial and corporate governance requirements to be met to obtain such authorisation.	The criteria for the activity of the management companies, as well as the conditions for authorization are fully transposed in CISA with no deviation.	Equivalent provisions

Subject	EU Provision	BG Provision	Comments
2. Licence/Authorization Withdrawal			
2.1. Investment Companies	Under the Directive, the investment company's licence may be withdrawn on grounds of: (a) inactivity within 12 months as of licencing or express renouncement of its activities; (b) misrepresentation; (c) no longer fulfils the conditions under which authorisation was granted; (d) serious or systematic infringement of the Directive; or (e) other, provided for in national legislation.	In respect of the conditions for withdrawal of the license of an investment company, there appears to be coherence between the EU and national legislation.	Equivalent Provisions
2.2. Management Companies	With regard to management companies, the licence withdrawal grounds are more or less aligned with the ones applicable to Investment Companies, considering some specifics of the management companies relative to the investment companies. Under the UCITS Directive (Article 7) Member States are allowed some flexibility to establish more stringent rules in this respect.	Bulgarian law (Art. 100 of the CISA) introduced additional grounds for withdrawal of the license of an asset management company to those explicitly provided in the UCITS Directive, such as deteriorating financial standing, non-compliance with capital adequacy and liquidity requirements, failure to comply with coercive administrative measures.	The approach to introduce additional grounds for withdrawal of the license might be seen as reasonable to protect investors interest but may be further assessed in terms of predictability and coherence as non-compliance with capital adequacy requirements could possibly overlap to a certain extent with deteriorating financial standing.
3. Disclosure of information undertakings	UCITS Directive requires that both investment and management companies disclose certain data and information. To that regard, an investment company and, for each of the funds it manages, a management company (Art. 68 of UCITS Directive), is required to	There appears to be coherence between the EU and national legislation.	Equivalent provisions

Subject	EU Provision	BG Provision	Comments
	publish: (1) a prospectus; (2) an annual report for each financial year; and (3) a semi-annual report..		
4. Maintenance of Unit-holders Registries	Under the UCITS Directive (its Annex II) the regular business of an asset management company shall include the function of maintenance of unit-holders registries.	Under Bulgarian law implementing UCITS Directive (Article 86(1) item 2 of CISA) asset management companies may keep unit-holders registries only if they manage UCITS originating from another Member State and not for UCITS located in Bulgaria.	This requirement stems from the obligation under POSA to keep segregated end-investor accounts at the level of the CSD as a register of all dematerialised securities including units of UCITS.
5. Sanctions	The UCITS Directive provides for minimum caps on the financial sanctions. Under EU law Members States are allowed some flexibility in establishing more stringent rules on types and amounts of sanctions than those provided in the EU directives.	CISA implemented the minimum caps on financial sanctions but also provides for a floor sanction.	A recent legislative amendment reduced the amount of the floor sanctions.
6. Alternative Investment Funds (AIFs)			
6.1. Capital Requirements	The AIFMD sets out capital requirements with respect to alternative investment fund managers (AIFMs). According to Art. 9 of the Directive an AIFM which is an internally managed AIF has an initial capital of at least EUR 300 000. Where an AIFM is appointed as external manager of AIFs, the AIFM shall have an initial capital of at least EUR 125 000. In addition, where the value of the portfolios of AIFs managed by	The Bulgarian CISA sets the capital requirements on the exact same terms as the AIFMD. According to Bulgarian legislation (Art. 194 et. seq. of the CISA) an alternative investment fund is a collective investment undertaking, including its investment sub-funds, other than a collective investment scheme, which invests funds raised by more than one person in accordance with a	Equivalent provisions

Subject	EU Provision	BG Provision	Comments
	the AIFM exceeds EUR 250 million, the AIFM shall provide an additional amount of own funds. That additional amount of own funds shall be equal to 0,02 % of the amount by which the value of the portfolios of the AIFs exceeds EUR 250 million but the required total of the initial capital and the additional amount shall not, however, exceed EUR 10 million.	particular investment policy and for the benefit of those individuals. An AIFM may be a legal entity whose main activity is the management of one or more alternative investment funds. The AIFM may be: ● a person other than the managed alternative investment fund (i.e. making the fund externally managed); or ● the alternative investment fund, when its legal organizational form allows this, and its managing body has not appointed an external manager (i.e. internally managed fund). Under the CISA, the AIF/AIFM may apply for registration with the FSC if 25 % of its capital is paid in. The other 75% are due 14 days as of registration. In essence this provision provides some extent of flexibility for the AIFMs.	

MARKETS IN FINANCIAL INSTRUMENTS

Key Legislation:

Markets in Financial Instruments Act (MiFIA)

Ordinance 38 dated 21 May 2020 of the FSC

Ordinance 11 dated 03 December 2003 of the FSC

MiFID II

MiFIR

Investment Firm Directive

Investment Firm Regulation

Subject	EU Provision	BG Provision	Comments
1. Investment Firms Reporting Obligations	While investment firms are subject to numerous reporting requirements, this document is aimed at analysing the applicable obligations under MiFID II and MiFIR. To that end, MiFID II sets up a frame for the reporting requirements, MiFIR is more specific as to the precise circumstance subject of disclosure.	The implementation analysis regarding MiFID II could hardly identify any deviation from the EU regulatory framework. Therefore, Bulgarian law has introduced such reporting mechanisms and is compliant with EU legislation. Further, the Bulgarian MiFIA directly refers to MiFIR's reporting requirements.	Equivalent provisions Despite no local more stringent rules were identified, investment firms claim that their activities are overregulated, thereby proving difficult to keep-up with all reporting and compliance obligations.

Subject	EU Provision	BG Provision	Comments
2. Licensing[61]			
2.1. Information Requirements	The rules on authorisation of investment firms including documentary and information disclosure requirements are harmonised on EU level by Delegated Regulation (EU) 2017/1943 and Commission Implementing Regulation (EU) 2017/1945.	Although local law introduces some additional documentary requirements to be applied in the investment firms authorisation process they seem to be immaterial. Thus, we identify no deviation from the EU regulatory framework in that respect.	Equivalent provisions
2.2. Licence Withdrawal	MiFID II provides for relatively limited grounds for withdrawal of the license of an investment firm, which include, *inter alia*: (a) failure to start operations within 12 months (where Member States may deviate from this); (b) misrepresentation and illegality; (c) non-compliance with the licensing criteria; (d) serious and systematic infringement of MiFID II or MiFIR; (e) country-specific ground, laid down by Member States. Some further grounds shall also apply, such as market abuse pursuant to MAR. Under MiFID II (Article 8) Member States are allowed some flexibility to establish more stringent rules in this respect and provide for	Bulgarian law introduced additional grounds for withdrawal of an investment firm's license to those explicitly provided in MiFID II, such as deteriorating financial standing, non-compliance with capital adequacy and liquidity requirements, failure to comply with coercive administrative measures, continued breach of local law requirements on the minimum number of members of its management and supervisory bodies.	The approach to introduce additional grounds for withdrawal of the license might be seen as reasonable to protect investor interest but may be further assessed in terms of predictability and coherence as non-compliance with capital adequacy requirements is overlapping to a certain extent with deteriorating financial standing.

[61] According to the 2022 Amendments, the Class 1 investment firms (i.e. investment banks) are also subject to licensing by the Bulgarian National Bank. However, the banking legislation is not the main focus of this report, thus the additional licensing criteria have not been addressed and discussed herein.

Subject	EU Provision	BG Provision	Comments
	withdrawal in respect of matters outside the scope of MiFID II.		
3. Sanctions	MiFID II provides for minimum caps on the financial sanction. Under EU law Members States are allowed some flexibility in establishing more stringent rules on types and amounts of sanctions than those provided in the EU directives.	MiFIA implemented the minimum caps on financial sanctions and also provide for a floor sanction.	There is a perception of the market participants that the levels of the floor sanctions need to be further analysed whether they are proportionate given the size of the market.

8 Sustainability and Sustainability Investing

The concept of sustainability links environmental, climate and social considerations with financial, economic and governance considerations.

To support sustainability policy development and implementation and facilitate capacity building, BSE, together with Independent Bulgarian Energy Exchange (IBEX),[62] established the Green Finance & Energy Centre, a sustainable development NGO think tank, in 2021, with participation from the Ministry of Energy, the Financial Supervision Commission and the Fund of Funds, as well as representatives of stakeholders on the topics - business, NGOs, industry organisations, academia and consultants and with the support of the Ministry of Finance. GFEC has published a "Charter for sustainable development of the Bulgarian economy", which, among other principles, covers:

- impact: *"we will support activities, investments and projects that go beyond the simple avoidance of harm to ensure the social, environmental and economic benefits of our activities for both current and future generations"*; and
- finding solutions: "*We will try to focus our activities on finding innovative economic solutions to any problem in achieving sustainability of economic entities in Bulgaria, which on the other hand have a positive impact on the environment and society. We will work to identify and promote the business case for such projects and to promote the dissemination of best practices developed in this way*".[63]

This is an ambitious agenda, and GFEC has organised a number of roundtables and other events on sustainability topics such as *"Accelerate Green" – Policies and practices to stimulate green investments in the economy and business* in April 2022 and *Training on ESG and the banking sector – strategies, regulations and opportunities* in March 2022. As this is a relatively new initiative, it remains to be seen what the impact is on companies integrating sustainability in their operations and strategy, their disclosures and reporting, and their capital markets activity. A major contribution to date is the publication of *ESG reporting guidelines* in 2022.[64]

In line with new trends in corporate governance, the National Code for Corporate Governance (2021)[65] introduced two new chapters, one on financial and non-financial reporting, and one of stakeholders and sustainable development. Specifically, chapter 5 provides a definition of sustainability and the role of corporate governance under provisions 38-39:

> *"Sustainable development is the achievement of a balance between social and environmental principles, such as socially justified and environmentally sound economic development. It aims*

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[62] See https://ibex.bg/about/profile/ and http://www.interrface.eu/ibex

[63] https://gfecentre.org/docs/GFEC_Charter_en.pdf

[64] https://gfecentre.org/en/aboutus#mission

[65] The revised code was approved by the National Corporate Governance Commission in July 2021, and adopted by the FSC in November 2021. https://nkku.bg/en/news/komisiyata-za-finansov-nadzor-na-svoe-zasedanie-ot-25-11-2021-g-e-utvardila-izmeneniyata-v-natzionalniyat-kodeks-za-korporativno-upravlenie-prieti-s-reshenie-na-us-na-nkku-ot-01-07-2021-g

to meet the needs of the current generation without compromising the ability of future generations to meet their own needs.

Corporate management must be committed to establishing specific actions and policies regarding the company's sustainable development, including the disclosure of climate-related information and social aspects of their operations."

These provisions are fundamental and aligned to the EU approach to sustainability.

Sustainability disclosure and reporting

The EU and international context

The EU Sustainability Action Plan 2018 outlined the framework for integrating these considerations in EU policy, laws and regulations, including corporate disclosure regulations, financial product disclosure regulations, EU benchmarks, the EU Taxonomy and the proposed EU Green Bond Standard (EU GBS).

Since then, the EU has adopted net-zero greenhouse gas (GHG) emissions by 2050 into law, the EU Taxonomy Regulation, the Sustainable Finance Disclosure Regulation (SFDR) and extended the scope of the Non-Financial Reporting Directive (NFRD) with the issuance of guidance on climate-related disclosures in 2019.

In 2021, the EU proposed the Fit-for-55 policy package aimed at providing the policy and regulatory basis for achieving 55% reduction in GHG emissions by 2030.

Further key developments in 2022, which will impact Bulgarian market participants in due course, include the publication of:

1. the exposure drafts related to the environmental topics of the European Sustainability Reporting Standards (ESRS E1 Climate Change, ESRS E2 Pollution, ESRS E3 Water and marine resources, ESRS E4 Biodiversity and ecosystems, ESRS E5 Resource use and circular economy) in April (in consultation until August) in the lead up to the introduction of the Corporate Sustainability Reporting Directive (scheduled to replace the NFRD from 2023). The exposure draft includes mapping to CSRD requirements, SFDR Principal Adverse Impacts, TCFD recommendation and IFRS Sustainability Standards. The social and governance topics are also under development;

2. the exposure drafts of the International Sustainability Standards Board (ISSB) – IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and IFRS S2 Climate-related Disclosures in March (in consultation until August), which effectively adopt the TCFD recommendations, including the TCFD *Guidance on metrics, targets and transition plans* and the updated implementation guidance, and build on them, while integrating existing guidance and disclosure frameworks produced by the Sustainability Accounting Standards Board (SASB) and the Climate Disclosure Standards Board (CDSB), including the approach to sector specific and thematic sustainability disclosures; and

3. EU Sustainable Finance Platform proposed technical criteria for assessing the remaining four environmental criteria under the EU Taxonomy as well as proposals for a transition and social taxonomies.

Sustainability disclosure and reporting in Bulgaria

Firms with headquarters elsewhere in the EU have an advantage as they tend to be included in parent reporting. Financial institutions are also subject to EU reporting requirements, e.g. the SFDR with respect to investment products (although domestic funds seem to only fall under Article 6 reporting as they do not offer sustainability products) and the NFRD as institutions.

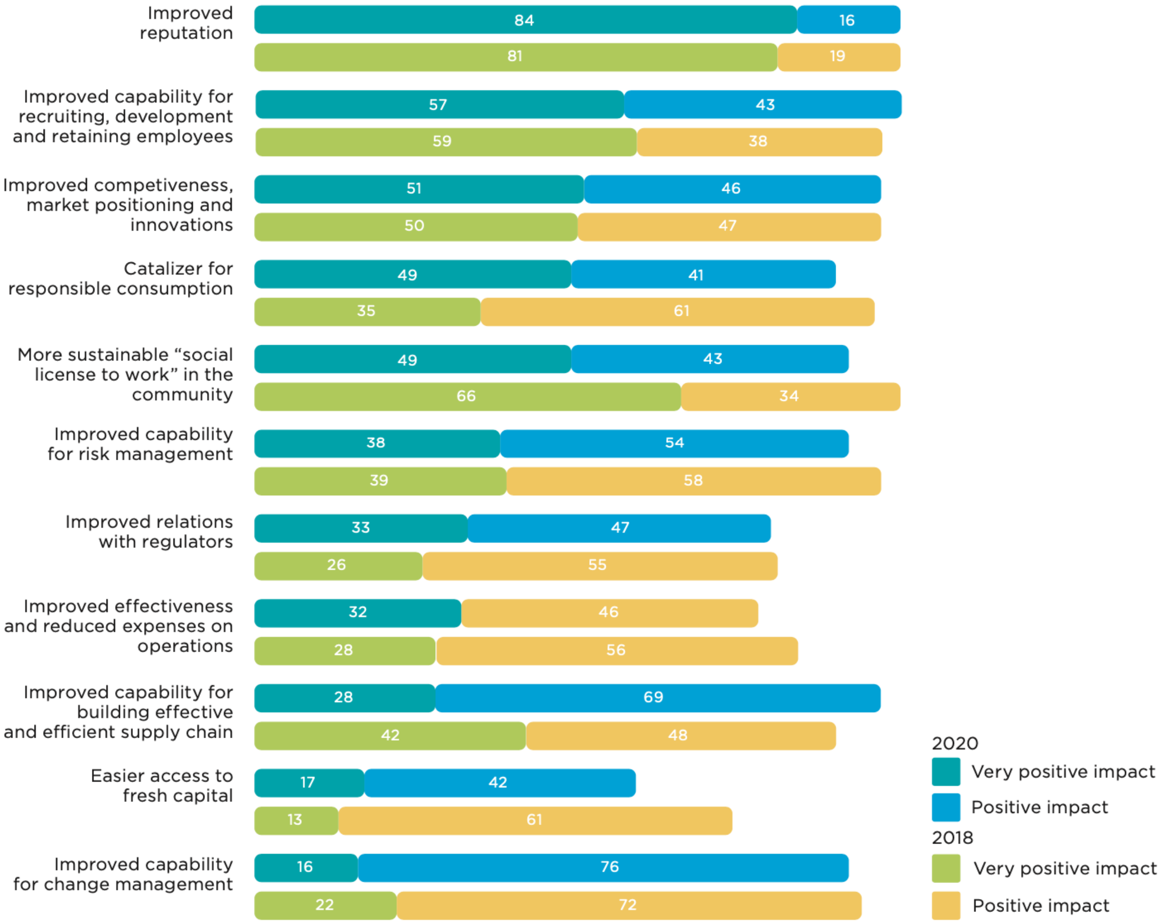
Large financial institutions (banks) are included in EU stress testing, which may translate into greater awareness and integration of sustainability issues in their operations going forward. At present, though, there is limited interest in developing green and sustainable financing capabilities or offering such products on the part of banks, and this seems to be associated with the ample supply of savings and access to reasonably cheap funding, i.e. there is no impetus to develop additional funding channels.

In Bulgaria, the approach to disclosure and reporting is still largely focused on corporate social responsibility (CSR) reporting, which is often more focused on corporate initiatives that tick social and environmental boxes than wider sustainability impacts and dependencies, risks and opportunities. Internationally, but particularly in Europe, CSR has been supplanted by sustainability disclosure and reporting, which focuses on a broad range of sustainability issues that impact or could impact the company and sustainability-related impacts (current or potential future ones) of the company on people and planet, with a strong focus on climate change, and well as specific ESG factors.

The State of CSR in Bulgaria 2020 report (the second in a new study series) aims to measure the pulse of Bulgarian business in reference to the overall perception, application, and progress on the issues of sustainability and corporate social responsibility (CSR) in the country. The study surveyed the top 300 employers in Bulgaria, identified by the ICAP annual report “Leading Employers in Bulgaria 2019”, and achieved a 12.3% response rate. Of the 37 respondents, a quarter stated that a “very high level of engagement with CSR”, and 35% defined it “highly significant”. Nine in ten include one or more of the CSR dimensions in the primary statement of values and define it as a priority corporate goal. Highest in rank continues to be the UN Global Compact while integrated reporting and OECD Guidelines have just been introduced in the Bulgarian business landscape. Unfortunately, the investors and large corporates in the country do not recognize and apply the ESG standards.

EU NFRD is transposed in the Bulgarian legislation and came into force at the beginning of 2017. This underpins a positive trend in CSR reporting between 2018 and 2020, with 83% of respondents already publishing CSR reports, and another 8% stating that they plan to by 2022. Half of respondents said they’d done so for more than 5 years, and further third for 2-5 years. Nine out of ten businesses consider it improves innovations, competitiveness, risk management and market positioning, catalyses the responsible consumption and grants the company a “social license to operate” (see Figure 8.1).

Figure 8.1 Stimuli for CSR Implementation (%)



Source: State of CSR in Bulgaria, Annual Review 2020 (CSR)

The top priorities for respondents are the promotion of international CSR standards, as well as active and responsible consumer behaviour. New priorities include the establishment of specialized communication channels for sharing good CSR practices (51%), promotion of good labour practices (43%), implementation of international CSR standards in the state and municipal institutions (43%). Tellingly, the least preferred are:

- Establishment of voluntary codes of ethics in various industries (16%)
- Introduction of instruments to stimulate social dialogue (14%)
- Promotion of external audit in CSR (14%)
- Introduction of legal frame of the profession of the CSR specialist (11%)

Half the respondents claim that only multinational companies and leaders in their field of sustainability are engaged with the broader international CSR agenda. Large employers are aware of the global trends setting the pace through the international CSR-related policy documents like the UN Sustainable Development Goals and the European Green Deal. They strive to align the corporate objectives with the general policy objectives. Nevertheless, local businesses see a limited direct impact on the Bulgarian private sector and rarely discuss them internally. In the next 12 months, most of the large Bulgarian employers are planning slow steps to progress on the global CSR-related policies. The most recognized continue to be the SDGs where two of each three corporates announce company commitments, assess the impact on their core business, report on the progress or participate in strategic partnerships.

Figure 8.2 Policy-related activities of companies in the next 12 months

	SUSTAINABLE FINANCE AND TAXONOMY	PARIS AGREEMENT ON CLIMATE	EUROPEAN GREEN DEAL	SUSTAINABLE DEVELOPMENT GOALS
Publicly announcing company commitment	14%	14%	30%	65%
Setting company targets in alignment	22%	16%	38%	57%
Implementation of an action plan	19%	16%	43%	49%
Impact and efficiency assessment	16%	22%	41%	65%
Participation in strategic partnerships	22%	19%	32%	65%
Progress reporting	19%	19%	32%	68%
Do not plan related activities	30%	32%	32%	16%

Source: State of CSR in Bulgaria, Annual Review 2020 (CSR)

Corporate transparency in Bulgaria. Analytical report 2021 analyses the extent to which obligated undertakings disclose to the general public and potential investors information on their business model, environmental and social aspects of their activities, policies and practices with regard to human rights and the fight against corruption. The long-term goal of the underlying study is to contribute to better formation on the role of companies in creating added value both on the market and for society as a whole. It is based on two methodologies developed custom-made and applied by the Dutch to promoteand unify corporate transparency. They cover two directions:

- Visibility and accessibility of information related to CSR;
- Reporting of non-financial information in annual they report to the companies.

The object of the study are companies which fall under the regulatory scope of NFRD. Their disclosure obligations related to non-financial information is incorporated in the Accounting Act and entered into force on 1 January 2017. According to ICAP data as of 31 December 2018, there were a total of 679 such companies. For completeness, the study also covered companies that fall in the “buffer zone”, i.e. 450-500 employees, and this captured a further 11 companies.

The study was conducted between March and August 2021. The analysis scores corporate transparency. The first block of questions focus on the entity and its business model, including analysis of strategic and operational context, profile and chain to create added value. The second group of questions refers to the goals and achievements in economic, environmental and social aspects of the company's activity, as well as on human rights and the fight against corruption and bribes. The third block is about management and includes issues related to management remuneration, monitoring procedures and report creation, and the future expectations of the company. The minimum number of points is -10 and the maximum number

120. The methodology creates an evaluation map for 147 indicators of availability or lack of specific content. Individual scorecards are clustered for analysis. The scorecard analysis relies on the annual activity reports of the companies, available on their websites, the Commercial Register and/or on the specialized internet portal X3 News, offered by "Bulgarian Stock Exchange - Sofia" AD through its subsidiary Service Financial Markets Ltd. The results are summarised in Figure 8.3 The maximum company score is 65 points, and the minimum is -7.

Figure 8.3 Detailed assessment matrix

Detailed assessment matrix	MIN points	MAX points	MIN values	MAX values	average values TOTAL	average values 500+	average values 450-500
Total score	-10	120	-7	65	17	20	11
Company and business model	-4	35	-3	27	9	9	5
Profile and value chain	0	12	1	10	3	3	2
Process of creating economic value	0	10	1	8	2	2	1
Operational context analysis (including risks and opportunities)	-2	8	-2	4	3	3	2
Strategic context	-2	5	-2	5	1	1	0
Politics and outcomes	-2	50	-2	23	5	7	3
Politics and self-set responsibilities	-2	5	-2	4	1	1	0
Goals	0	7	0	6	1	1	0
Economical aspects of the business	0	8	0	3	1	1	1
Ecological aspects of the business	0	8	0	3	1	1	1
Social aspects of the business	0	8	0	1	1	1	1
Human rights aspects of the business	0	8	0	1	0	1	0
Anti-corruption and anti-bribery aspects of the business	0	6	0	1	0	1	0
Managerial approach	-4	35	-2	12	3	4	3
Management and remuneration	-4	10	-2	3	1	1	1
Management and control	0	8	0	1	1	1	1
Future expectations	0	7	0	6	1	1	1

Source: CORPORATE TRANSPARENCY INITIATIVE, (CSR, 2021)

Findings of note include:

- While more than half of companies include a detailed overview of their operational activities in their reports and describe their business model, only 5% connect the process of creating value with the different forms of capital it uses and describes how it adds value or decreases the value of these forms of capital.
- While more than 60% of companies describe the economic context in which they operate, only one in four reference regulatory changes. Less than 10% of retailers explain the opportunities and risks of their business compared to their competitors, as well as how they envisage their development in this context.
- While about 80% include a detailed review of the individual risks, including sectoral risks, only 29% disclose how they are managed day-to-day.
- Six in 10 companies provide information on the development strategies they have adopted, but only 36% link it to specific priorities and goals.

On the plus side, strengths include integration of non-financial information in the main financial report, organisational and product-related business model information is quite comprehensive, and most reports are published on corporate websites. Further, compared to 2019, the 2021 study found that more companies are developing procurement and supply chain risk assessments, communicating with external stakeholders and reporting on future development plans. However, there are also significant weaknesses, the key being:

- Regulatory compliance: Most companies do not realize their role in a wider societal context and **comply strictly to the minimum standards and reporting guidelines**.
- Content deficits: Most often general statements are made, not specific ones and quantitatively described results. There is no reporting and description of criteria underlying the scope of reported non-financial information. Compared to 2019, the 2021 report recorded a lower number of companies that explain how they have chosen criteria for disclosure of non-financial information, how they measure, evaluate and calculate their results, as well as what reporting standards and guidelines they follow.
- Lack of comparability: Information is presented in a way and format that does not allow comparisons and without supporting information on the decision-making process. There is no data to determine the boundaries of the reported information, incl. on the value chain.
- Opacity in processes: There is a lack of clarity about management activities related to sustainability - goal setting, team and resources for implementation, monitoring and reporting process.
- Limited information on social aspects, particularly how companies interact with local ethnic and/or religious communities, including the measures taken for their social and economic development. This trend is also valid for the results of the impact of their products and services on vulnerable consumers (e.g. the safety of products targeted at children, pregnant women, the elderly).

Of biggest concern is that companies shy away from informative disclosure on sustainability topics, providing only general information and often only the minimum required. These findings are in line with the observations of domestic investors, who generally hold corporate reporting by Bulgarian businesses in low regard, with little or no meaningful coverage of sustainability issues. Bulgarian businesses are able to borrow reasonably cheaply from banks and, as noted, (1) see capital markets as a costly option and (2) do not appreciate the benefits of capital market listings, particularly bond listings.

Lack of sufficient corporate disclosure, including on sustainability topics, is a major challenge for investors, as they themselves have increasing reporting requirements. To address it, corporate disclosure needs to become more easily available, more comprehensive, more integrated between financial and sustainability topics, more explicit in how the business model has evolved in response to sustainability risks and opportunities, how these inform business strategy and financial planning, how the risks are managed. Of particular concern is the lack of climate-related disclosure which is at the top of the EU agenda and the objective of the EU Green Deal and supporting policy and disclosure requirements. The introduction of additional EU requirements will, therefore, place a further burden on Bulgarian companies and investors.

The provisions of the new chapter 4 of the National Code of Corporate Governance (2021), which is specifically focused on financial and non-financial disclosure, can help address these shortfalls. Key provisions of note (abridged, highlights added) are:

> *"34. Where applicable, corporate governance shall adopt rules to ensure the disclosure on an annual basis of non-financial information in accordance with national law and applicable European law. In this regard, corporate executives should* ***include in their annual reports information on how and to what extent the company's activities can be classified as environmentally sustainable, such as: what part of its turnover is the result of products and services related to economic activities that qualify as environmentally sustainable; what part of its capital costs, where applicable, and what part of its operating costs are related to assets or processes related to economic activities that qualify as environmentally sustainable****.*
>
> *35. It is recommended, as part of the information disclosure system, to* ***develop and maintain a website of the company*** *with approved content, scope and periodicity of the information disclosed through it. […]*
>
> *36. The Company should periodically disclose information about corporate governance.* ***Disclosure of information about corporate governance is in accordance with the "comply or explain" principle.*** *The principle requires that in case of non-compliance with some of the recommendations of the Code, an explanation be provided.*
>
> *37. Corporate managements ensure that* ***any material periodic and incidental information about the company is disclosed through channels that provide equal and timely access*** *to relevant information by users."*

However, both businesses and investors we interviewed see the growing sustainability disclosure requirements as a burden rather than a way to assess business and strategic risks related to issues such as climate change and social inequality or an opportunity to address such risks and attract international investment, or as a way of publicising their sustainability efforts. While there is a growing awareness of the need for assistance in developing capacity, this is still seen as an issue to address at some point in the future rather than as an avenue of growing general capital markets capacity now.

The Green Finance & Energy Centre published *ESG Reporting Guidelines* in 2022,[66] which is in line with EU sustainability reporting principles and disclosure regulations and, broadly speaking, also aligns to the proposed IFRS S1 and IFRS S2 (see above), as well as the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD)[67] around

[66] https://gfecentre.org/en/aboutus#mission
[67] https://www.fsb-tcfd.org/publications/

metrics and targets.[68] Similarly, the Warsaw Stock Exchange published ESG Reporting Guidance in 2021.[69] By contrast, the model guidance developed by the Sustainable Stock Exchange Initiative (of which BSE is a member) is broader and covers more aspects of TCFD analysis and disclosure, including scenario analysis, in respect of climate change.[70]

Sustainability and Investing

The Global Green Finance Index 9 (2022) ranks financial centres in terms of sustainability, infrastructure, human capital and business, taking into account, among other factors, stock exchange initiatives, renewable energy deployment, green bond investments, transport infrastructure and governance, as well as market depth and quality. Warsaw is the highest ranked centre in CEE – ranking at No. 70, with Moscow at 73 and Prague at 76.[71] No other Eastern European centres feature in the index, indicating a significant gap compared to Warsaw and Prague.

Raising funding for green and social investment

There are new Bulgarian companies involved in low-carbon technology and some are on BEAM, but there is negligible interest in using the debt capital market to fund low carbon investment, infrastructure and property upgrades, and the decarbonisation of energy, transport and industry. In part, this seems to be associated with the availability of EU funding on favourable terms and accessible through ministries and programmes.

For example, in 2021, the European Investment Bank provided EUR 176mn of financing for "sustainable infrastructure, green urban development and businesses".[72] This included a €43.2mn loan for railway modernisation between Plovdiv and Burgas, and €7.6mn for rehabilitation of tramway infrastructure, the purchase of new rolling stock and intelligent transport management systems in Sofia. These are great examples of green infrastructure that could also be financed in the bond market, particularly for municipal and city issuers.

Further loans of €40mn and €60mn were provided to Sofia International Airport and Municipality of Sofia, respectively, to fund airport improvements, including energy efficiency upgrades and better environmental protection (green) and safety and security (social), and improved urban mobility, including funding for trams, cycling and walking infrastructure (green), as well as construction and rehabilitation of roads (social). Over €60mn co-finances various projects around the country, e.g. renovation and energy efficiency measures in schools in Stara Zagora, the development of urban green areas in Varna, the construction of a medical centre in Tsarevo, the replacement of water supply and sewerage infrastructure in Blagoevgrad and renewable energy measures in Maglizh. These types of projects have been funded using municipal, local government and sovereign green and sustainability bonds across many markets (see next section).

The EIB also provides advisory services and has helped Bulgaria secure €710mn funding for the Sofia metro and notes that it is working with local authorities to raise about €1bn for water

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68 https://www.tcfdhub.org/metrics-and-targets/ and https://assets.bbhub.io/company/sites/60/2021/07/2021-Metrics_Targets_Guidance-1.pdf

69 https://www.gpw.pl/pub/GPW/ESG/ESG_Reporting_Guidelines.pdf

70 https://sseinitiative.org/wp-content/uploads/2021/06/Model-Guidance-on-Climate-Disclosure.pdf

71 https://www.longfinance.net/publications/long-finance-reports/global-green-finance-index-9/

72 https://www.eib.org/attachments/publications/factsheet_bulgaria_2021_en.pdf

& sewage projects across the country. While EIB financing is beneficial in the short-term, working with local authorities to build capacity and identify sources of financing is arguably more beneficial as it lays the groundwork for securing medium to long-term financing for social, climate and energy transition projects. Some of that funding could come from green bond markets. Climate Bonds Initiative has assessed green infrastructure investment opportunities in a number of emerging markets and has found investable green infrastructure projects across energy, transport, water and waste management, many of them public-sector opportunities large enough for benchmark bond issues.[73]

EBRD's Transition Report 2020-2021 identifies another potential investment opportunity that can address social and climate issues: "The Waste Management Act was updated to include more ambitious recycling targets. The amendments, which will come into force at the start of 2022, cover increased recycling targets for packaging waste along with a phased schedule within which to reach them. The aim is to recycle 70 per cent of packaged waste by 2030. Moreover, all entities producing packaged waste are now obliged to adhere to the law, while commercial sites need to ensure they have adequate facilities to collect and separate this type of waste."[74]

In practical terms, the creation of the Bulgarian Development Bank is an avenue for actioning sustainability policy which has yet to materialise. On a positive note, BDB has a mandate to provide venture capital investing and structuring expertise, which is crucial to the formation of new businesses. The role and potential of accessing the market through the Bulgarian Development Bank, municipalities or cities is yet to be explored by the market. While the Bulgarian Development Bank has facilitated the use of EU funds for Covid-19 recovery programs, its mandate is limited to structuring and facilitating venture capital investment rather than funding given its low investment ceiling, imposed by the Ministry of Finance. The country's infrastructure needs in terms of upgrades, e.g. the rail network and rolling stock or replacing bus fleets in cities, extending electrified transport (trams, trolley and metro routes), and the energy transition (e.g. developing new capacity to allow the retirement of coal power generation capacity) are significant and could be of interest to international investors, but are not being funded in the debt capital markets.

Green, social and sustainability bonds

The growth of the green bond market has become a barometer for the state of progress on sustainability, but the universe of labelled debt has expanded significantly over the past 5 years to include social and sustainability debt.

There are essentially two types of sustainable debt: use of proceeds instruments and KPI-linked. The table below provides a summary.

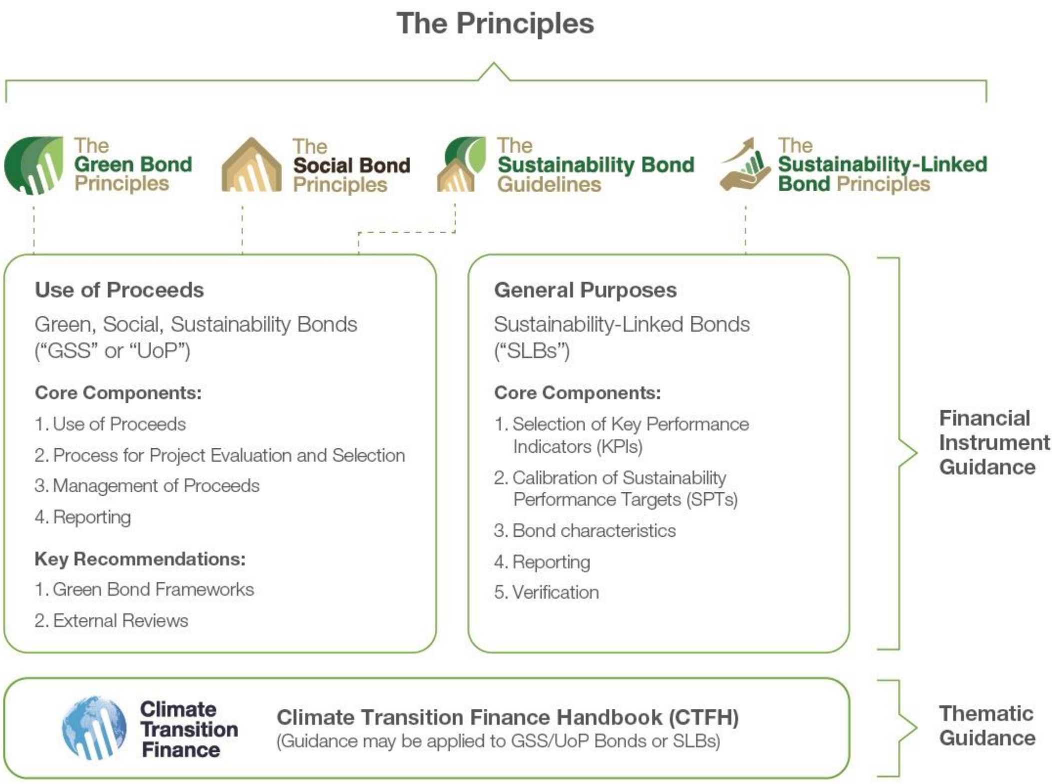
Use of proceeds bonds and loans define the categories of assets or projects they will finance and the proceeds must be allocated only to eligible assets and projects. Green bonds include blue bonds (GB for ocean-related assets / projects) and resilience bonds, which fund climate change adaptation and resilience assets or projects, including nature-based solutions.

KPI-linked debt is general purpose financing which can be used to finance any aspect of a business but the terms of the debt (typically the coupon or margin) are linked to predefined

[73] https://www.climatebonds.net/green-infrastructure-investment-opportunities-giio-programme
[74] https://2021.tr-ebrd.com/countries/#

key performance indicators, whereby failure to meet the KPIs by a specified target date(s) leads to tighter debt terms or failure to trigger an improvement of terms.

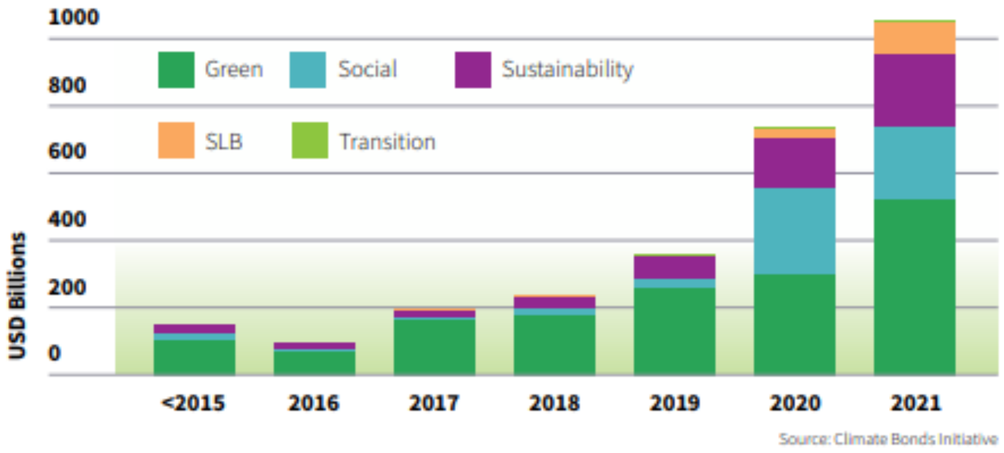
Category	Use of proceeds (UoP)					KPI linked
Label	**Green bonds / loans**	**Resilience bonds**	**Sustainability bonds / loans**	**Social bonds**	**Transition bonds**	**Sustainability-linked bonds / loans**
Allocations	Green assets or projects	Adaptation and resilience assets or projects, incl. nature-based solutions	Green and/or social assets or projects, incl. SDG bonds	Social assets or projects, incl. SDG and pandemic bonds	Assets or projects to decarbonise activities with net zero pathways	General corporate purpose debt but entity aims to achieve KPI targets
Principles, frameworks and criteria	ICMA GBP LMA/LSTA GLP EU Taxonomy CBI Taxonomy	Climate Resilience Principles	ICMA Sustainability Guidelines UN SDGs EU Taxonomy CBI Taxonomy	ICMA SBP UN SDGs	Financing Credible Transitions AIIB-Amundi CC Investment Framework	ICMA SLBP LMA/LSTA SLLP
Examples	Green loans: Aqua Africa NAB Low Carbon Shared Portfolio OVG GL	EBRD Climate RB LCDA Green Bond	BBVA Sust. Bond Framework Luxembourg Sust. Bond (EU Taxonomy for green)	DKB SB JSC Russian Rail SB EU SURE bond	Cadent Transition Bond	Enel SLB Tesco SLB LafargeHolcim SLB



Source: ICMA (2021), *Guidance Handbook*

The sustainable debt market topped USD1tn of issuance in 2021 and has continued to perform strongly in 2022 (to date).

Figure 8.4 Sustainable debt volume surpassed USD1tn in 2021

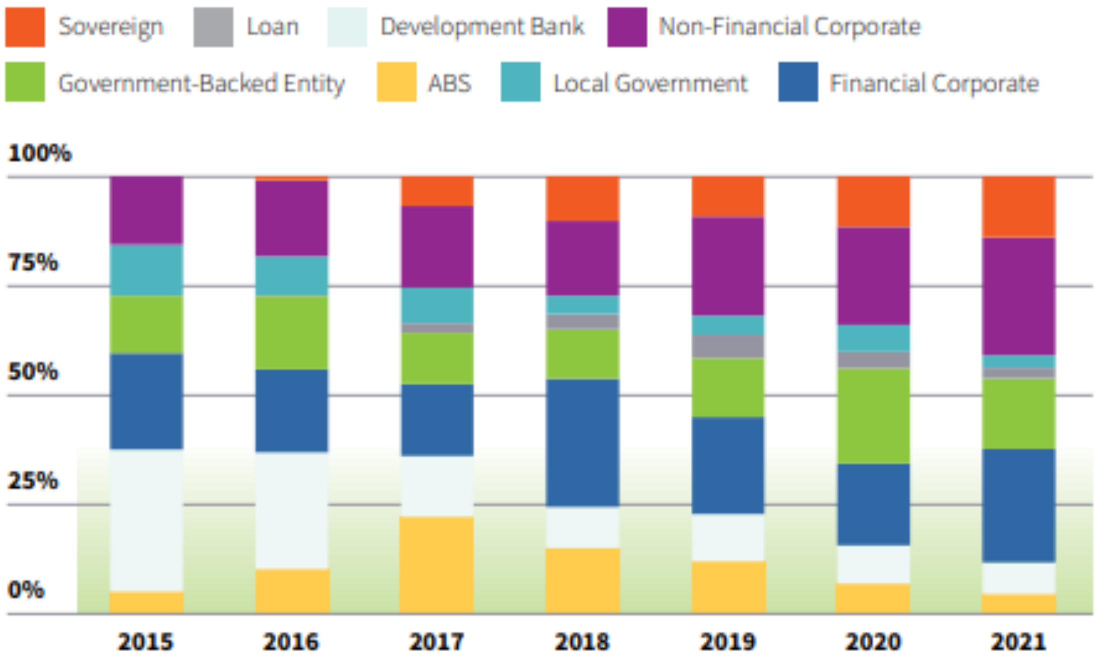


Source: Climate Bonds Initiative, 2022. [Sustainable debt: Global state of the market 2021](). NB: CBI does not track sustainability-linked loans, but they are a much larger market than sustainability-linked bonds.

Social bonds were widely used in 2020 to raise Covid-19 response funding as well as recovery funding in 2020 and 2021. A new development in the market is the rise of sustainability-linked bonds and loans.

Most green bond issuance in 2021 came from private companies, but historically the public sector, including development banks, local government, government-related entities and sovereigns have played a significant role in the establishment and growth of the market. The first green bonds were issued by the European Investment Bank and the World Bank in 2007 and 2008 respectively, and until 2015, development banks dominated issuance.

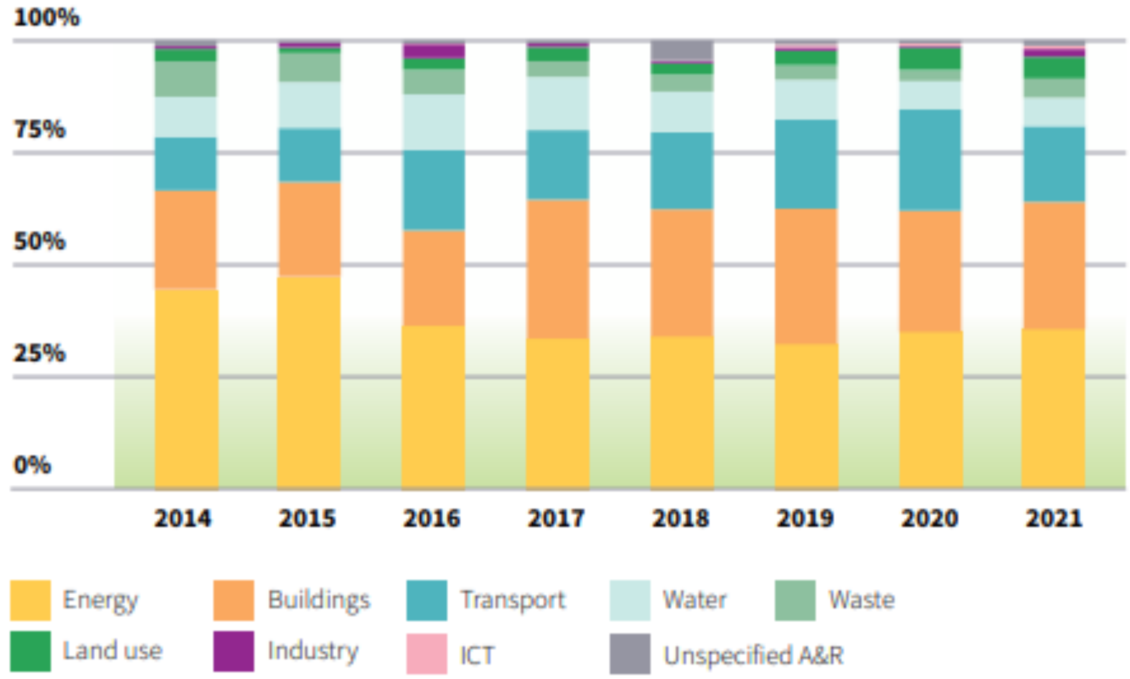
Figure 8.5 Green bond issuers



Source: Climate Bonds Initiative, 2022. [Sustainable debt: Global state of the market 2021](#).

Green bonds are typically associated with renewables and low carbon transport such as rail and electric vehicles. However, they can be used to finance a much wider range of low-carbon activities, including energy efficient buildings and renovations to make buildings significantly more efficient, sustainable water and waste management, sustainable agriculture and forestry, conservation (e.g. national parks and marine reserves).

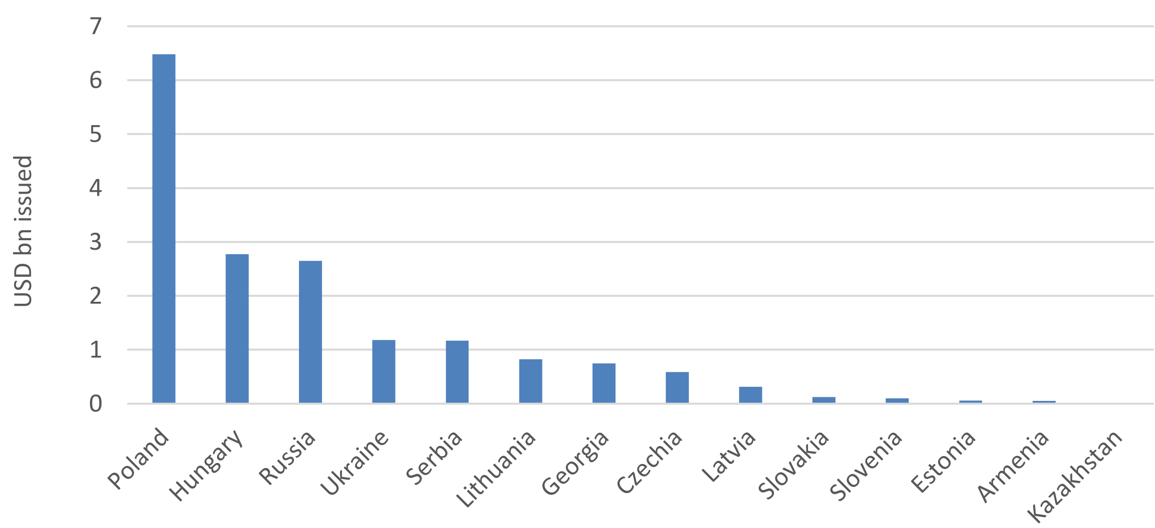
Figure 8.6 Green bond use of proceeds



Source: Climate Bonds Initiative, 2022. [Sustainable debt: Global state of the market 2021](#).

Neither Bulgaria as a sovereign nor any Bulgarian companies have issued green, social or sustainability bonds. While issuance from Central and Eastern Europe is low compared to other regions, there has been USD17bn issued since Poland's first sovereign green bond issued in December 2016. The first deal from Russia (2019) was issued to raise funding for the national rail network operator. Lithuania's first sovereign green bond was raised to finance upgrades to apartment buildings, and a government-related entity raised funding for a venture capital investment fund, both in 2018.

Figure 8.7 Green bond issuance in Central and Eastern Europe (2016-2021, total)



Source: Climate Bonds Initiative, 2022

Estonian renewable energy company Nelja Energia issued the region's first green bond: a EUR50m bond issued in June 2015 to finance solar, wind, hydro and biomass projects. A few days later, Latvia's state energy company Latvenergo raised EUR76m. In 2017, Lithuania's state energy company Lietuvos Energija upsized its debut green bond from EUR200m to EUR300m due to high investor demand. Early issuers also include Altum, a state-owned investment company from Latvia, and Bank Zachodni WBK (BBVA Group) in Poland.[75]

Recent issuance from the region has come primarily from banks, including one Certified Climate Bond from PKO Bank:[76]

Entity	Issue Size	Issued	Term	Certified bond verifier	SPO Provider
OTP Bank	EUR 400m	Jul-22	3Y		ISS ESG
Slovenska Sporitelna (Erste Group)	USD 57m	Jul-22	7Y		ISS ESG
PKO Bank	EUR 500m	Jul-22	3Y	Sustainalytics	
Raiffeisen Bank Romania (Raiffeisen Bank International)	RON 525m	Jun-22	5Y		Sustainalytics
Banca Comerciala Romana SA (Erste Group)	RON 702m	Jun-22	5Y		ISS-ESG
Latvenergo AS	EUR 100m	May-22	5Y		CICERO
R.Power Renewables	PLN 250m	Apr-22	n/a		Sustainalytics
K&H Jelzalogbank zrt	HUF 15bn	Apr-22	10Y		

Source: Climate Bonds, Bloomberg, Refinitiv EIKON, WIND, corporate websites and other information sources

Sovereign issuance plays a significant role in emerging market green bond issuance as it creates a benchmark for domestic and international investors and provides liquidity, but also as it sets the tone for other issuers from the country. In fact, Poland was the first country to issue a sovereign green bond. In CEE, Poland and Hungary are repeat green bonds issuers: Poland's sovereign green bonds represent 66% of Polish green bond market issuance, and Hungary's – 79% of the Hungarian green bond issuance.

Poland has issued three sovereign green bonds under its green bond framework and all are listed on the Luxembourg Green Exchange (LGX):[77]

[75] Climate Bonds Initiative (2018). *The green bond market in Europe.* https://www.climatebonds.net/files/reports/the_green_bond_market_in_europe.pdf
[76] https://www.climatebonds.net/cbi/pub/data/bonds
[77] https://www.gov.pl/web/finance/issues-international-bonds

Issue date	Tenor	Issue size	Allocation of proceeds
Dec 2016	5-year	EUR 750m	All proceeds were allocated by Oct 2017. Most funds were allocated to sustainable agriculture (39%), clean transportation (32%) and renewable energy (21%).[78]
Feb 2018	8-year	EUR 1bn	All proceeds were allocated by Nov 2018. Most of the funds were allocated to clean transportation - railways (77%), followed by sustainable agriculture (8%) and renewable energy (7%).[79]
Mar 2019	10-year 30-year	EUR 1.5bn EUR 500m	74% allocated as of Mar 2021. The majority of funds were allocated to clean transportation (68%), followed by sustainable agriculture (18%) and renewable energy (8%). About 82% of the proceeds financed projects launched in 2019 and 2020. Sustainable agriculture includes organic farming, environmental protection and afforestation.[80]

Source: Poland Ministry of Finance

Hungary has issued multiple sovereign green bonds under its green bond framework (see table below).[81] Following the issuance of its inaugural EUR denominated green bond in June 2020, Hungary issued green Samurai bonds in 2020, green Panda bonds in 2021,[82] and more Samurai bonds in 2022.[83] Since April 2021 the debt management office has also offered 30-year and 10-year domestic green bonds (HUF-denominated) through auctions.[84]

According to the investor presentation: "*The new HUF green government bond is intended to serve as benchmark reference for other Hungarian green bond issuer s catalysing the development of the local green bond market and increasing the Sustainable Finance awareness in Hungary In addition, the new bond will attract international ESG conscious bond investors into the HUF bond market, further developing the potential investor base for domestic issuers.*"[85] The 30-year tenor is longer than earlier sovereign green bonds.[86] As of July 2022, Hungary had raised HUF 75bn in 30-year bonds and HUF 90bn in 10-year bonds.[87]

[78] Poland Ministry of Finance (2017). *Green bond report on the use of proceeds* (Documentation concerning green bonds issued in December 2016)
[79] Poland Ministry of Finance (2019). *Green bond report on the use of proceeds* (Documentation concerning green bonds issued in February 2018)
[80] Poland Ministry of Finance (2021). *Green bond report on the use of proceeds – update* (Documentation concerning green bonds issued in March 2019)
[81] https://akk.hu/content/path=green-framework
[82] https://www.ifre.com/story/3179841/hungary-prints-first-green-sovereign-panda-bond-xvpk0q2gw1 and Hungary Debt Management Office (2022). *Green bond investor presentation 2022* https://akk.hu/download?path=f14f0fd8-5052-4f1c-a439-ba8b141d695c.pdf
[83] https://uk.daiwacm.com/news-media/news/2022/03-march-2022/2022/02/the-underwriting-of-hungary%E2%80%99s-samurai-bonds-including-green-bonds
[84] https://akk.hu/securities-issuance-and-trading/types-government-securities
[85] Hungary Debt Management Office (2021). G*reen bond investment presentation April 2021.* https://akk.hu/download?path=68bde643-584f-4410-9a0e-6886fa978388.pdf
[86] https://www.bnnbloomberg.ca/hungary-is-seeking-buyers-for-the-longest-sovereign-green-bond-1.1593628
[87] https://akk.hu/securities-issuance-and-trading/publicferings/publicfering-hg-bonds-ktv

Issue date	Tenor	Issue size	Allocation of proceeds
Jun 2020	15-year	EUR 1.5bn	As of 2021 the proceeds were almost fully allocated. About 87.5% of proceeds were allocated to clean transport – primarily railways. The next biggest allocation is to land use and living resources (9%), towards the implementation of the EU Biodiversity Strategy (85% co-financed by EU funds).[88] Other sectors include renewable energy, waste and water management, energy efficiency (subsidies for renewable energy use in buildings) and adaptation. In addition to the allocation report, Hungary has published an impact report, which provides additional details of the projects funded and how they meet impact indicators.[89]
Sep 2020	7-year 10-year	JPY 15.5bn JPY 4.5bn	
Multiple 2021	30-year	HUF 70bn (2021 total)	Allocation report not available yet.[90]
Dec 2021	3-year	CNY 1bn	
Feb 2022	5-year 7-year 10-year	JPY 46.8bn JPY 4.7bn JPY 7.8bn	Allocation report not available yet.
Multiple 2022	10-year 30-year	HUF 95bn (YTD total)	

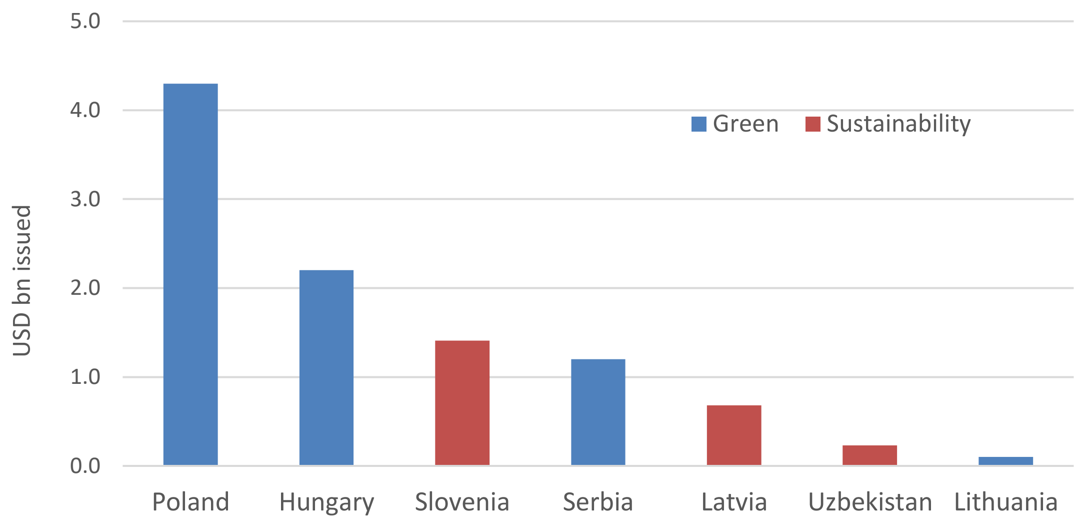
Source: Hungary Debt Management Office (AKK), 2022. For 2022 Samurai bonds – Daiwa Capital Markets, 2022

The Central Bank of Hungary (MNB) launched a green program in 2019.[91] This includes the creation of a dedicated green bond portfolio within the Bank's foreign exchange reserves,[92] and preferential prudential treatment for lenders that offer energy-efficient mortgages.[93] In 2021, MNB supervisory guidance for credit institutions on the management of climate-related and environmental risks, applicable from June 2021, which calls on banks to assess the environmental risks and effects of both their own operations and their financing portfolios.[94]

In early 2022, MNB published green bond guidelines.[95] The guidelines explain frameworks, standards and taxonomies that issuers and investors can use in issuing market-based green bond market, and the publication comes after the closure of the Growth Bond Program (NCP), under which market participants could purchase both traditional and green corporate bonds.[96]

[88] Hungary Debt Management Office (2021). *Hungary green bond allocation report 2020.* https://akk.hu/download?path=f5dfa7d7-eb5f-4ff1-bf27-86e20a8e9f6e.pdf
[89] Hungary Debt Management Office (2021). *Hungary green bond impact report 2020* https://akk.hu/download?path=21dcb526-74eb-40c9-914a-9119b8e1d8e1.pdf
[90] The first allocation period ends one year after issuance and ICMA recommends that issuers publish an allocation report within 2 years of issuance.
[91] https://www.mnb.hu/letoltes/mnb-green-program-en.pdf
[92] https://www.mnb.hu/en/pressroom/press-releases/press-releases-2019/magyar-nemzeti-bank-among-the-first-central-banks-to-create-a-dedicated-green-bond-portfolio-within-foreign-exchange-reserves
[93] https://www.mnb.hu/en/pressroom/press-releases/press-releases-2019/the-central-bank-of-hungary-joins-the-advisory-council-of-the-energy-efficient-mortgages-pilot-scheme
[94] https://greencentralbanking.com/2021/05/03/mnb-issues-green-guidance/
[95] Magyar Nemzeti Bank (2022). *Green bond guidelines.* https://www.mnb.hu/letoltes/mnb-zold-kotveny-utmutato.pdf
[96] https://www.moodysanalytics.com/regulatory-news/jan-25-22-mnb-publishes-guidelines-on-issuance-of-green-bonds

Figure 8.8 Sovereign green and sustainability bond issuance in Central and Eastern Europe (2016-2021, total)



Source: Climate Bonds Initiative, 2022. Sustainable debt: Global state of the market 2021, "*9. Spotlight: The Sovereign GSS Bond Club*"

The most recent sovereign green bond issuance from the region is from Serbia. In Q3 2021, Serbia raised EUR1bn in its first sovereign green bond auction, generating over EUR3bn of interest for the 7-year Eurobond.[97] The bond framework stipulates that the proceeds are to be used only for financing and refinancing of renewable energy (with emissions of up to 100 grams of carbon dioxide equivalent per kilowatt-hour)[98], energy efficiency, sustainable water and wastewater management, pollution prevention and control and circular economy, protection of the environment and biodiversity and sustainable agriculture[99].

In March 2022, Chile became the first government to issue a sustainability-linked bond (SLB), with a 20-year US$2bn issue.[100] SLBs identify key performance indicators (KPIs) that the issuer needs to meet to avoid changes in the terms of the bond (typically a coupon increase). The benefit, compared to use-of-proceeds bonds (e.g. green bonds or sustainability bonds), is that the issuer does not need to identify specific projects upfront but can select suitable investments over time to achieve the KPIs. SLBs have become increasingly popular in the last two years. Chile's KPIs are reduction in absolute GHG emissions and increasing the share of renewable energy generation in the national electric system to 60% by 2032.Chile has also issued green bonds (the first in 2019) and social bonds, demonstrating how different national aspirations can be funded in the capital markets. Its issues have generated strong interest.[101]

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97 https://balkangreenenergynews.com/serbia-raises-eur-1-billion-in-its-first-green-bond-auction/

98 This aligns with the technical criteria for climate change mitigation of the EU Taxonomy.

99 The categories align to the EU Taxonomy's six environmental objectives: https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance/eu-taxonomy-sustainable-activities_en

100 See https://cib.bnpparibas/chile-sets-a-trend-with-first-sovereign-sustainability-linked-bond/ and https://www.hacienda.cl/english/work-areas/international-finance/public-debt-office/esg-bonds/sustainability-linked-bonds/chile-s-sustainability-linked-bond-framework

101 https://greenfinancelac.org/resources/news/chile-becomes-the-first-country-in-the-world-to-issue-a-sustainability-bond/

International investors, as noted, are not interested in Bulgarian securities, in part, due to size and liquidity concerns. However, in August 2022 BSE announced a partnership with Refinitiv (part of the LSE Group) to provide data on the sustainable performance of BSE-listed companies to support a planned sustainability index[102]. Domestic investors are willing to do the analysis, but have capacity constraints and their efforts are hampered by the lack of sufficient disclosure.

One way to address liquidity and visibility is through the issuance of sovereign and/or local government and/or government agency bonds. The credibility of local issuance can be boosted through external verification of the bond (preferably by a well-established international consultancy). New emerging market issuers[103] have often used Certification under the Climate Bonds Standard[104] to demonstrate to investors the quality of their deals and provide comfort that their assets and projects will be regularly monitored, in line with the standard's requirements. This approach underpins the proposed EU Green Bond Standard as well.

The evolution of the Climate Bonds Taxonomy[105] and, more recently, the EU Taxonomy have also helped define what technical criteria are aligned with the goals of the Paris Agreement.

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[102] https://www.bse-sofia.bg/en/press-releases/id/132844

[103] See https://www.climatebonds.net/certification/certified-bonds

[104] https://www.climatebonds.net/certification/get-certified

[105] https://www.climatebonds.net/standard/taxonomy

European Bank for Reconstruction and Development

Funded by the European Union

Bulgaria: Diagnostic of the State of Development of the Bulgarian Capital Market

Recommendations Report

April 2023

CIVITTA

DJINGOV GOUGINSKI KYUTCHUKOV VELICHKOV
ATTORNEYS AND COUNSELLORS AT LAW

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Abbreviations

ABB	Association of Bulgarian Banks
BAAMC	Bulgarian Association of Asset Management Companies
BASPSC	Bulgarian Association of Supplementary Pension Security Companies
BDB	Bulgarian Development Bank
BEAM	Growth segment of BSE
BGN	Bulgarian lev
BNB	Bulgarian National Bank
BSE	Bulgarian Stock Exchange
BNBGSSS	Bulgarian National Bank Government Securities Settlement System
BVCA	Bulgarian Venture Capital Association
CCP	Central Counterparty
CDAD	Central Depositary AD
CSD	Central Securities Depository
DFI	Development Finance Institution
DMO	Debt Management Office
EBA	European Banking Authority
EBRD	European Bank for Reconstruction and Development
ECB	European Central Bank
EIOPA	European Insurance and Occupational Pensions Authority
ESG	Environmental, social and Governance
FSC	The Bulgarian Financial Supervision Commission
GSS+	Green, Social, Sustainability and Other Labelled bonds
IFC	International Finance Corporation
MIG	Ministry of Innovation and Growth
MIGA	Multilateral Investment Guarantee Agency
MOF	The Bulgarian Ministry of Finance
MTF	Multilateral Trading Facility
NCGC	The Bulgarian National Corporate Governance Council (also known as NKKU)
NFRD	EU Non-Financial Reporting Directive

PD	Primary Dealer
PE	Private Equity
PECA	Public Enterprises and Control Agency
SFDR	Sustainable Finance Disclosure Regulation
SME	Small and Medium-sized Enterprises
SOE	State-Owned Enterprise
TCFD	Taskforce on Climate-related Financial Disclosures (convened by the Financial Stability Board)
T2S	TARGET-2 Securities
UCITS	Undertakings for the Collective Investment in Transferable Securities
VC	Venture Capital

Introduction

This report builds on the Gap Analysis report[1] presented in August 2022. That report identified the principal barriers holding back the development of capital markets in Bulgaria. This report presents a set of recommendations for actions to provide guidance to policy makers and authorities in their efforts for development of a Capital market strategy to address those barriers.

[1] Bulgaria: Diagnostic of the State of Development of the Bulgarian Capital Market – Gap Analysis Report (EBRD, August 2022)

Summary

This report builds on the Gap Analysis report[2] presented in August 2022, which identified the principal barriers holding back the development of capital markets in Bulgaria. This report presents a set of recommendations for actions to provide guidance to policy makers and authorities in their efforts for development of a Capital market strategy to address those barriers.

The key barriers identified in the Gap Analysis were:

- Low level of trust in the market
- Shortage of investable assets
- Unsupportive legal and regulatory environment
- Medium level of financial literacy

The overall objective is to achieve greater use of the capital markets in Bulgaria by issuers and by investors.

To achieve this, there are three intermediate objectives:

Objective 1: increase the availability of investable assets by creating opportunities and vehicles for using the capital markets to raise finance and ensuring investors have access to them.

The focus of the recommendations is on increasing the range of assets available and increasing the ability of investors to access them.

The areas where actions are recommended are

- Explore opportunities for public sector entities to raise finance through bond issues or through listing minority stakes in some State-Owned Enterprises;
- Strengthen the Government Securities Market to improve liquidity and make it more attractive to investors before Bulgaria joins the euro area;
- Develop opportunities for corporate bond issuance, including issuance of covered bonds by banks;
- Support companies through their life-cycle, recognising that different types of finance are appropriate at different stages of a company's growth, in particular

[2] Bulgaria: Diagnostic of the State of Development of the Bulgarian Capital Market – Gap Analysis Report (EBRD, August 2022)

strengthening the sources of finance for companies in the Private Equity/Venture Capital phase of growth to support them through to listing;

- Develop Sustainable Finance opportunities, which includes building the capacity to identify suitable opportunities and prepare financial instruments.

Objective 2: increase the level of trust in capital markets so that both investors and issuers will have more confidence in using the markets.

Building trust in capital markets requires measures to:

- Strengthen corporate governance
- Address the issue of dormant accounts
- Improve corporate disclosure.

Objective 3: make the use of the capital markets cheaper and more efficient, to reduce the wedge between the cost to issuers and the return to investors and make capital markets competitive with other forms of finance.

Finally, to make capital markets cheaper and more efficient will require actions to:

- Make the legal and regulatory environment more supportive
- Streamline regulatory processes
- Streamline the CSD infrastructure
- Review the need for clearing services

Implementation

To achieve these objectives, the report recommends a set of 60 actions, with the intention that these will serve as the basis for the design of the Capital Market Strategy.

To ensure successful implementation, the strategy must be formally adopted by the Bulgarian Government. An identified ministry – presumably the Ministry of Finance – should act as "Champion" to lead implementation and should consider appointing an individual to oversee implementation. Implementation of the Strategy should be co-ordinated across the official institutions – the MOF, BNB and FSC and other relevant institutions.

The current Stakeholder Working Group could serve as a vehicle for stakeholder participation to ensure market institutions, market associations and participants will contribute to the implementation of the strategy, as formulated by the government. The

Stakeholder Working group should be responsible for reviewing the progress and results of the strategy and ensuring that actions being taken remain relevant.

Implementation should be transparent, meaning that regular progress reports should be published so that all stakeholders are informed about the development of the strategy.

1 Overview of barriers and recommendations

Overview of barriers

The Gap Analysis identified the following barriers to the development of capital markets.

Low level of trust in the market

Many of the shareholders who took part in the mass privatisation programme in the 1990s are now considered “dormant” as they are no longer active, having lost track of their shareholdings; in some cases, they have died and their shares have not passed to their inheritors. Maintaining this body of dormant accounts imposes an operational and financial burden on the central securities depository for corporate securities, CDAD. It also undermines corporate accountability, as companies may be controlled by dominant shareholders, in some cases apparently taking advantage of the non-participation of dormant shareholders to consolidate their control.

Although Bulgaria has a well-developed corporate governance code, compliance is weak. The combination of dominant shareholders and weak control of corporate governance gives rise to a widespread sense that company insiders put their interests before those of shareholders as a whole. This undermines trust in the market and makes investors reluctant to commit their funds to the market.

Shortage of investable assets

There is a shortage of investable assets and few new assets being offered through IPOs in the market for a variety of reasons.

Part of the legacy of the mass privatisation process is that most large companies have a very small free float, with the great majority of shares held by core shareholders.

Even the largest companies are small by international standards and the market lacks a benchmark issue since Bulgarian Telecom was taken private. There have been no other very large, privatised banking or energy companies, which often provide the benchmark in other markets. The government has not taken steps that could add to investable assets by identifying state-owned enterprises for privatisation.

Although government borrowing is low by European standards, the government funds two-thirds of this in the international bond markets. Combined with the limited role of the Bulgarian National Bank (BNB) under the currency board arrangement, the result is that trading in government securities – normally the core of capital markets – is very low and the bond market generally is underdeveloped.

The shortage of investable assets, low liquidity, low free float and the low level of trust deter institutional investors from investing in the market. Thus, a vicious circle develops, whereby the low level of investable assets deters investors from investing and the absence of investors deters companies from coming to the market to create more assets.

Unsupportive legal and regulatory environment

There is also a widespread belief that the legal and regulatory environment is unsupportive. Most of the legal and regulatory framework is now determined by EU laws and regulations. Rules designed to address the problems of large markets and with compliance costs that can be borne by large financial groups are felt to be disproportionately burdensome for a very small market such as Bulgaria. While this applies to all smaller countries in the EU, the way in which EU rules are transposed into Bulgarian law and their regulatory implementation may also affect their impact on the market.

Medium level of financial literacy

The medium level of financial literacy has sometimes been identified as a barrier to development. Indeed, the business sector generally is too little aware of the potential of capital market finance. However, the enthusiastic response from SMEs to the opportunity of the BEAM market and from retail investors to international investment opportunities suggests that there is at least sufficient knowledge to support organic growth of the market at its current stage. Furthermore, the institutions and market participants have launched many initiatives in the recent years to enhance the level of financial literacy, including in the area of capital markets.

Recent developments

Since the Gap Analysis was completed in August, the BEAM SME market has continued to attract listings, while the Standard equities segment has lost listings. A large number of international companies were added to the international segment.

Table 1 BSE: number of listed securities by segment

Sector	End- June 2022	End-December 2022
Premium equities	7	7
Standard equities	60	58
BaSE segment	133	131
Exchange traded products	19	20
Government securities	16	16
Other bonds	85	85
BEAM	8	10
MTF BSE International	197	394

Source: Quarterly Bulletin of BSE, Q2 and Q4 2022

Management of Alternative Investment Funds was removed from the scope of VAT, bringing Bulgaria into line with most EU countries.

In November ESMA published the Technical Standards for crowdfunding.

Objectives of the recommendations

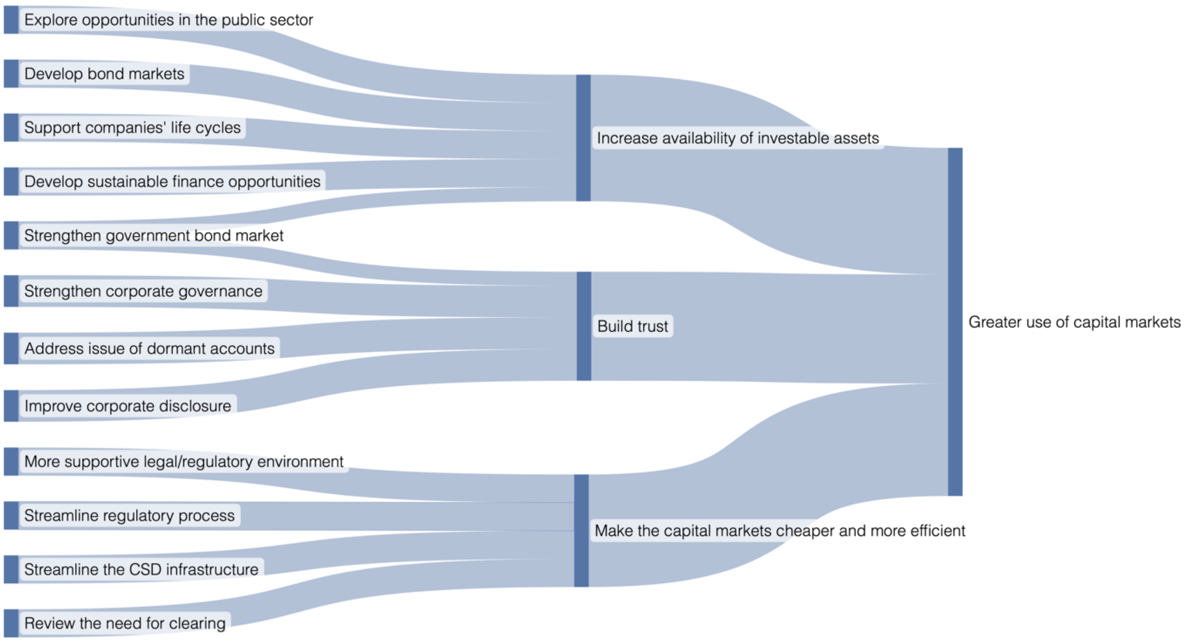
The **overall objective** is to achieve greater use of the capital markets in Bulgaria by issuers and by investors.

To achieve this, there are three **intermediate objectives**:

- Objective 1: increase the availability of investable assets by creating opportunities and vehicles for using the capital markets to raise finance and ensuring investors have access to them;
- Objective 2: increase the level of trust in capital markets so that both investors and issuers will have more confidence in using the markets;
- Objective 3: make the use of the capital markets cheaper and more efficient, to reduce the wedge between the cost to issuers and the return to investors and make capital markets competitive with other forms of finance.

To achieve these objectives, we recommend a set of **actions,** grouped into **areas of activity**. The intention is that these will serve as the basis for the design of the Capital Market Strategy.

Chart 1: High level structure of recommendations



The recommendations are presented in the following chapters:

- Chapter 2 discusses options for the implementation of the recommendations.
- Chapter 3 presents recommendations to increase the availability of investable assets
- In Chapter 4 presents recommendations to increase the level of trust in capital markets.
- Chapter 5 presents recommendations to make use of the capital markets cheaper and more efficient.
- Chapter 6 presents a high-level plan.

Implementation

The forthcoming Capital Market Strategy will not be the first strategy for development of the Bulgarian capital market. In 2016 the Capital Market Development Council was formed to lead and oversee implementation of a broad package of measures. This programme was largely successful, as the majority of the measures were implemented[3] and the Council subsequently ceased meeting.

Going forward, arrangements for implementation of the Capital Market Strategy, when it is formulated, will also be critical. We believe the following elements will be important for successful implementation.

- The Strategy must be formally adopted by the Bulgarian Government
- An identified ministry – presumably the Ministry of Finance – should act as "Champion" to lead implementation.
- Implementation of the Strategy should be co-ordinated across the official institutions – the MOF, BNB and FSC
- The relevant ministry should consider appointing an individual to oversee implementation (similar to the Plenipotentiary in Poland - see box).
- The current Stakeholder Working Group could serve as a vehicle for stakeholder participation to ensure market institutions, market associations and participants will contribute to the implementation of the strategy, as formulated by the government.
- The Stakeholder working group should be responsible for reviewing the progress and results of the Strategy and ensuring that actions being taken remain relevant.
- Implementation should be transparent, meaning that regular progress reports should be published so that all stakeholders are informed about the development of the strategy.

[3] See review of measures and their implementation in the Gap Analysis, pages 21-31

Implementation of the Capital Market Development Strategy in Poland

Direct supervision over the implementation of the Strategy was entrusted to the Plenipotentiary of the Minister of Finance, Investment and Development, appointed at the rank of Secretary or Undersecretary in the Ministry of Finance. In order to efficiently carry out the implementation phase, the Plenipotentiary is responsible to

- ensure effective communication regarding CMDS activities within the Government,
- publicly present the solutions envisaged by the CMDS, its objectives, main assumptions, as well as the roadmap,
- ensure the recruitment of an experienced project team.

The Plenipotentiary was supported by a CMDS project management team in the Ministry of Finance. Thematic working groups were established within the Financial Market Development Council (RRRF*) for market participants to provide input to the main themes of the CMDS.

The Ministry of Finance was responsible for concluding a trilateral agreement with the National Bank of Poland and the Polish Financial Supervision Authority for coherent and effective implementation of the strategy.

* Rada Rozwoju Rynku Finansowego

Source: Capital Market Development Strategy, Appendix to the Resolution No. 114 of the Council of Ministers of 1 October 2019

This report presents its recommendations in the form of Actions: each Action identifies

- The Action to be taken
- The possible main responsible institution for taking it
- An indication of the proposed timing for taking the action:
    - Short-term – in the next 1-2 years
    - Medium-term – in 3-5 years
    - Long-term – after 5 years
- An indication of the priority of the Actions
    - High priority – should take precedence over other Actions
    - Ordinary priority – valuable to carry out when possible

While the objectives set out above will remain valid for a considerable period of time, it will be important to keep the actions under review: some of them may become superseded by subsequent developments and new requirements may develop as a result of changing circumstances.

A high-level implementation plan is presented in the final Chapter.

Objective 1: Increase Availability of Investable Assets

Capital markets exist to meet the needs of both issuers and investors. This chapter therefore addresses both together, as in many cases their requirements are complementary – for example, a tax change affecting investors may benefit issuers or *vice versa*. The focus of the recommendations is on:

- Increasing the range of assets available
- Increasing the ability of investors to access them.

These two objectives need to be advanced side-by-side to escape from the vicious circle where lack of demand for investments reduces supply and lack of supply drives demand out of the country:

- The rapidly growing pension fund sector is mainly investing in foreign assets, as a result of the lack of local eligible investment opportunities and legal barriers to investment in some investment instruments or vehicles (companies listed on BEAM, VC/PE investments).
- Vehicles to invest in small-cap shares and unlisted early-stage companies are missing, mainly due to the lack of sufficient product development, some legal bottlenecks and the moderate cooperation between local VC/PE industry and the pension fund and insurance industries.
- The local mutual fund industry is very underdeveloped, even by comparison with other countries in the region and is not competitive with foreign mutual funds distributed in Bulgaria. These problems significantly lower the demand on local capital market investments.
- The immaturity of the local government securities and corporate bond market strongly limit the range of available lower-risk investment opportunities in the capital market and hampers the set up and launch of local money market and (short) bond funds. This narrows the range of direct investment opportunities for private individuals in moderate-risk instruments.
- Furthermore, the risk averse investment attitude and the insufficient financial literacy limit the investment of private investors.

The recommended approach therefore is to strengthen the supply of high-quality assets from the public sector and banks; support growing companies to the point where they can access the capital markets; develop opportunities for sustainable finance; and ensure that investors have access to all types of investable assets.

Explore opportunities in the public sector

There are opportunities for public sector entities to raise finance through the capital markets in ways that will be both advantageous for the public sector and help development of the capital market. There are two main opportunities.

- Public sector entities, including municipalities, can raise finance by issuing bonds. Particularly where they are used to finance green projects, they will appeal to investors with a focus on sustainable investments. This opportunity is available to State-Owned Enterprises (SOEs), municipal governments and other public authorities. (This is discussed further below.)

- There may be opportunities to open part of the ownership of some SOEs[4] to the public through listing of minority shares on BSE, while retaining majority ownership in the public sector. PECA[5] is responsible for co-ordinating the policy in relation to SOEs among the various ministries and also for approval in cases of privatization. This would contribute to the objectives of adding to assets available for investment, raising finance for the company and/or government and strengthening transparency and governance of the SOEs. This model has been followed in Estonia and Lithuania (see box).

[4] There are 265 companies that are fully or majority controlled by the government as of August 2022, with an equity value of BGN 26.9 billion (OECD Economic Surveys: Bulgaria 2023)

[5] Public Enterprises and Control Agency

IPOs of SOEs in the Baltic countries

Tallinn Port

In 2018 the Estonian government offered approximately one third of the shares in Port of Tallinn (Tallinna Sadam) through an IPO on the Tallinn Stock Exchange, raising €147mn.

Furthermore, the offering received support from close to 14,000 retail investors (c.1% of the Estonian population) which accounted for 23% of the total demand and makes Port of Tallinn the listed Estonian Company with the largest number of retail investors.

Source: https://www.stjadvisors.com/transactions/port-of-tallinn-147m-initial-public-offering-estonia

Ignitis

In 2020 the Lithuanian government offered 28% of the shares in Ignitis grupe, a state-owned energy group, for sale through an IPO on the Vilnius and London Stock Exchanges, raising €450mn. It is now the largest equity on the Nasdaq Baltic market by capitalisation.

Although both companies are still majority government-controlled, they comply with market requirements for disclosure and are in the top 10 most traded equities on Nasdaq Baltic by value and volume.

	Action	Responsible	Timing	Priority
1.01	Identify opportunities for SOEs and public authorities to finance developments through bond issuance	Relevant ministries, municipalities	S	O
1.02	Identify if there are SOEs suitable for listing minority shares	Relevant ministries, Council of Ministers, Parliament, PECA	M	O

Strengthen the Government Securities Market

(Actions relating to the government securities market are included here, under the objective of increasing investable assets, but a deep and liquid government securities market also contributes to the following objective – increasing trust in markets.)

The government bond market generally provides the foundation for other capital markets as it provides the risk-free asset used in collateralization and its pricing creates the yield curve used in pricing other assets. Furthermore, government securities are the basic building blocks for institutional and household investment portfolios, as a fundamental low risk investment solution leading private investors along the learning curve of securities investments. However, the government bond market in Bulgaria lacks depth and liquidity, with the result that it does not fulfil these classic roles. The objective therefore is to enable it to support growing use of capital markets and help to build confidence among investors and issuers.

Bulgaria faces a specific challenge with its forthcoming accession to the euro area, which will put its government bond markets into competition for investors' attention with larger and better-established markets.

The first priority is to increase liquidity in the secondary market by strengthening the role of the Primary Dealers., enforcing the quoting obligations in the Secondary market (quoting time and spreads) and adapting the rewards in the Primary market (mainly with non-competitive auctions). The enforcement of the obligations can be done only within an electronic platform that can monitor the activity of the PDs. In the medium term, the objective is to adapt the government's issuance strategy to Bulgaria's position in the euro area. The split of issuance between euro-denominated Eurobonds issued into ICSDs and domestic bonds issued into the BNB CSD will cease to be relevant. The domestic market would benefit from being the location for the bulk of issuance with issues available to international investors by being traded on an international platform (such as MTS) and settled in T2S.

	Action	Responsible	Timing	Priority
1.03	Assess the need to change the "Instruction" of the Ministry of Finance in the sense of: - Augmenting the number of obligatory hours of trading (instead of 3 hours) - Defining precisely the Bid/Offer spread per Maturity bands/benchmarks - Reduce considerably the spread from 50 BPS to a close market-oriented spread depending on the maturity.	DMO	S	H

	Action	Responsible	Timing	Priority
1.04	Create clear rules of enforcement in the Secondary market with monitoring of the E-platform in order to be able to give incentives in the Primary Market.	DMO	S	H
1.05	Analyse the possibilities to augment the list of potential Primary Dealers, including with international dealers, in order to leverage the bargaining position of the DMO of the Ministry of Finance.	DMO	M	O
1.06	Create a yield curve based on executable, real time prices, to allow the price calculation of a larger range of securities.	DMO	S	H
1.07	Rethink the overall issuance and distribution strategy of the primary and secondary markets in view of the new competitive framework created by the government securities being denominated in Euros.	DMO	M	H
1.08	Analyse the possibility to join the Euro MTS platform for more visibility of Bulgarian Bonds and for a more efficient trading platform in Euro denominated Bonds. As most PDs in Europe are already connected, Euro MTS will allow the Bulgarian securities to join an existing pool of liquidity of Euro denominated debt	DMO	M	O

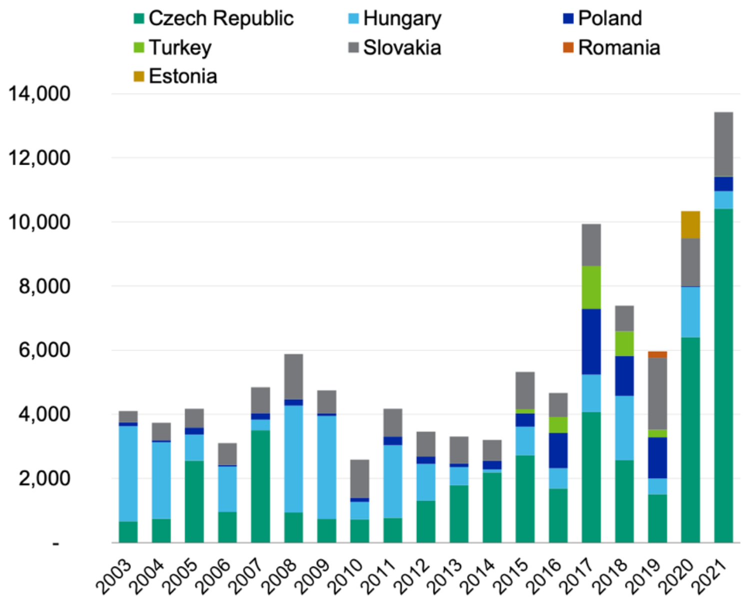
Overall, the changes and improvements must go to the wholesale distribution channel that a Primary Dealership offers. The possibility of developing a distribution scheme on the retail market requires further discussion (see also Action 1.14).

Develop opportunities for corporate bond issuance

Compared with similar markets, bonds are relatively little used for finance by corporates in Bulgaria. In particular, there is little or no issuance by banks or SMEs. In part, this reflects economic conditions (for example, easy availability of finance from banks in a period of exceptionally low interest rates), but there is an opportunity to make sure the institutional arrangements are in place to support issuance when economic conditions favour it. This requires working with potential issuers to raise their understanding. This includes awareness of the potential for green bond issuance (see Chapter 5). There is now potential for covered bond issues by banks, as the legal framework for issuing covered bonds is in place and this is a significant market in some comparable countries (see Charts 2 and 3).

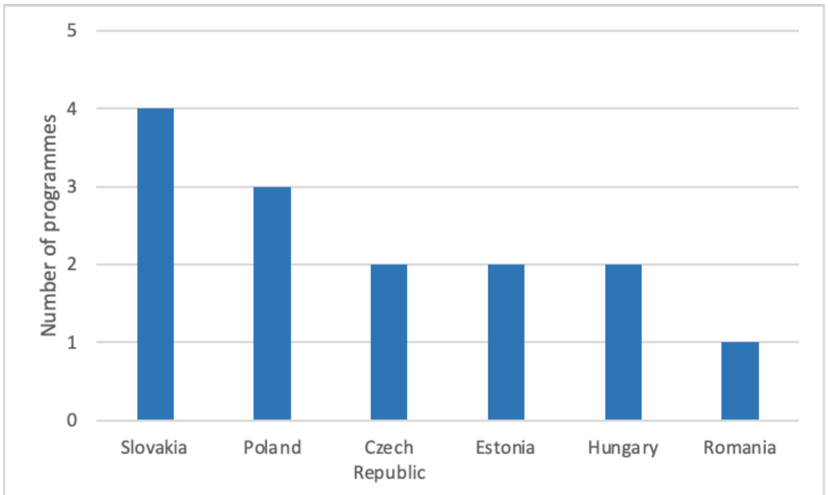
Chart 2: New issuance of Covered Bonds (EUR mns)

Total amount of CBs issued per year and per country



Source: ECBC Factbook 2022

Chart 3: Number of Moody's rated Covered Bond programmes



Source: Moody's Investors Service, Covered Bonds – Global Sector Update – Q1 2023: Economic contraction risk eases but continues to weigh on housing markets (9 March 2023).

While pension funds and insurance companies are already keen investors in fixed income securities, there is also a need to develop opportunities for retail investors through fixed income investment funds. These would broaden the range of instruments available to retail investors by offering a relatively low risk savings instrument (which could also invest in government securities) and increase demand for bonds.

	Action	Responsible	Timing	Priority
1.09	Raise awareness of opportunities for bond issuance by banks	BSE	S	H
1.10	Raise awareness of opportunities for bond issuance by SMEs	BSE	S	H
1.11	Raise awareness among banks of the potential for issuing covered bonds	ABB	S	H
1.12	Encourage development of retail fixed income funds which could invest also in government securities	BAAMC	M	H

Support Companies Through their Life-cycle

The future of the capital markets lies in the small companies of today. This means there is a need for recommendations to help companies to raise funds at every phase of their corporate life-cycle: different phases of the corporate life-cycle raise different legal, business and operational issues and challenges. These have different requirements. Generally, earlier in the corporate life-cycle the financing eco-system is less elaborated and coordinated and it is more difficult to attract funds successfully from both institutions and individual investors.

Recommendations are therefore addressed to the following corporate maturity stages:

- Earliest-stage: angel and crowd-financing
- Moving-up to venture capital (VC) and private equity (PE) financing
- Preparing for listing on BEAM and progressing to main market

Angel and crowd-financing stage

The start-up phase is the most critical and difficult to finance. The usual lack of product or service and the consequent insufficient cash-flow generation makes the classical loan financing unavailable. Therefore, business angels and the mobilisation of investment through fintech platforms, including fast-developing crowd-financing facilities[6], may be called on to provide the required capital at the earliest developing

[6] Supported by the newly-adopted Technical Standards

stages. An increasing interest rate environment and the related growing loan financing costs further increase the relevance of this early-stage forms of capital financing.

The same early stage can be also financed through the ever more developing and standardizing crowd-funding. Crowd-funding activity and crowd-funding service providers are uniformly regulated under the adopted supranational legislation (EU Regulation 2020/1503). The regulation is directly applicable also in Bulgaria. As a next step, discussions are recommended to initiate where potentially interested market participants (banks, market infrastructure), fintech service providers and the regulator can exchange views on crowd-funding service providers' potential added value to the local capital market ecosystem.

High-level recommendations – proposed directions

- Coordinate the incubation and acceleration efforts and initiatives of industry players and state-owned organizations. Investigate how the Bulgarian State could support the early-stage incubation and acceleration of local start-ups.

No.	Action	Responsible	Timing	Priority
1.13	Elaborate a concept paper analysing and defining the possible supporting role of the Bulgarian State in incubation and acceleration of early-stage growth companies	BVCA	M	O
1.14	BDB to explore opportunities to work with local stakeholders to develop local accelerators and thus, to support growing companies to use capital markets. (VC finance)	BDB, BSE	M	O

Crowdfunding example: Hungary

Tokeportal is an example of a crowdfunding platform and service provider:

- Built from scratch, development started in 2017
- Financed in 5 rounds with EUR 380,000 by
    - a Hungarian incubator
    - Hungarian State
    - private investment round
    - self-crowdfunding
- Went live in 2020
- 15 investment campaigns managed and ca. EUR 2mn attracted
- 7,800 platform users, one third made investment
- Targets 10% of the ca. 1,200 Hungarian startups being on track
- Applied for the ECSPR licence in 2022, expected licencing in 2023
- Seeking further funding and cooperation in the CEE markets

Source: https://tokeportal.com/en/tokeportal/

Venture capital and private equity financing stage

As in many countries, local pension funds and insurance companies are participating negligibly or not all in venture capital and private equity financing in the Bulgarian market. The main reasons are the following:

- Due to the lack of transparency, related high risk and the small ticket sizes, direct investment in companies seeking capital is not preferred.
- Although the Ministry of Innovation and Growth, Bulgarian Development Bank and Bulgarian Stock Exchange have already taken the first steps to co-operate and have set up a fund to help companies in the regulated market and BEAM market, there are still no active domestic or cross-border co-operation initiatives to support companies at the VC/PE stage.
- Even where there are no legal or regulatory impediments to investment in VC/PE funds, the transparency and risk criteria for eligible asset managers (general partners – GPs) and the institutional framework and documentation have not yet

been developed to make them an acceptable investment for the local institutional investors.

- Private equity funds investing in more mature companies aiming to be listed on the BEAM market are not structured to be available for affluent individuals whose investment portfolios could be diversified through the VC/PE asset class.

High-level recommendations – proposed directions

- Make coordinated market level efforts to explore domestic and cross-border cooperation opportunities to set up new investment vehicles helping companies at different earlier stages of their growth:
    - BSE, BDB and private sector investors to set up investment vehicles to direct financing to SMEs which aim to grow (VC finance) or be listed in the BEAM market (PE finance)
    - BDB to explore cooperation opportunities with EIF and private sector investors (asset managers) to set up investment vehicles to support VC/PE finance to SMEs
    - BDB to explore opportunities to set up VC/PE funds where the funds are provided by BDB (or directly from state budget by the Ministry of Innovation and Growth where BDB is exercising the ownership rights of the Bulgarian State) and by private investors with the goal to finance local growth companies (VC/PE finance)
- With regards to VC/PE collective investments, elaboration of an “Eligible asset manager – eligible product” concept with the following key points:
    - Identify the criteria for asset managers (GPs) which make them eligible and reliable VC/PE fund managers and thus acceptable professionals for local pension funds
    - Define the key transparency and risk characteristics of VC/PE funds which can offer a suitably diversified VC/PE portfolio for local institutional investors (mainly pension funds and insurance companies)
- Review the limitations on pension fund investment with a view to extending the range of permissible investments in a way that does not compromise their soundness.

- As many of these investments require special skills not necessarily available in-house at pension funds, review the possibility of allowing them to allocate part of their portfolio to external asset managers with the requisite skills.

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- Investigate if the currently existing capital market investment related tax advantages could be broadened to VC/PE investments in a way to motivate affluent and MiFID compliant professional private investors to diversify their wealth portfolio through VC / PE investments.
- Elaborate and launch an education programme for affluent private investors to improve their financial literacy on long-term saving portfolio diversifications through VC / PE investments

	Action	Responsible	Timing	Priority
1.15	Amendment of Social Insurance Code to remove impediments to investments in AIFs by pension funds due to (i) restrictions applying to pension funds to invest in instruments which are not fully paid in and (ii) requirements to maintain continuous compliance with applicable thresholds in case of changes in the valuation of its investments which might not be suitable for investments in private companies.	FSC, MOF	S	H
1.16	Follow up whether pension fund investments in AIFs have increased after the removal of the impediments to investments	FSC	M	O
1.17	Review the possibility of allowing pension funds to allocate part of their portfolio to external fund managers	FSC, MOF	S	H
1.18	Explore cooperation opportunities with EIF and private investors (asset managers - GPs) to set up investment vehicles to support VC / PE finance to SMEs	BDB, BVCA	M	O
1.19	Explore opportunities to set up VC / PE funds where the funds are provided by BDB and private investors with the goal to finance local growth companies	BDB, BVCA	M	O
1.20	Define the key features of VC/PE funds which can offer a suitably diversified VC/PE portfolio for local institutional investors, managed by an asset manager to be selected by the investors	BVCA, BASPSC, ABI	M	O
1.21	Elaborate an education campaign to focus on improvement of overall financial literacy of eligible private investors with regards to VC / PE investments	BVCA	M	O

Support listed companies

There are promising young companies in Bulgaria, as has been shown by the success of the BEAM market. Three elements have helped to support its development:

- the increase of the threshold for issuing securities without a prospectus to €3 mn and then €8 mn;
- the introduction of tax exemption for capital gains (same as for the regulated market) which is temporary to the end of 2025 for the moment;
- the efforts of BSE to promote the market, including through the BEAM up lab.

The European Commission has proposed a new Listing Act[7], with the following objectives:

- Simplify the documentation that companies need to list on public markets, and streamline the scrutiny processes by national supervisors, thereby speeding up and reducing the costs of the listing process whenever possible.
- Simplify and clarify some market abuse requirements, without compromising market integrity.
- Help companies be more visible to investors, by encouraging more investment research especially for small and medium sized companies.
- Allow company owners to list on SME growth markets using multiple vote share structures, so that they can retain sufficient control of their company after listing, while protecting the rights of all other shareholders.

The negotiations in the Council and in the European Parliament are ongoing. It is expected that after the implementation, the proposed alleviations will help create a more supportive environment for new listings and Bulgaria should ensure it is ready to take advantage of the opportunities created. It

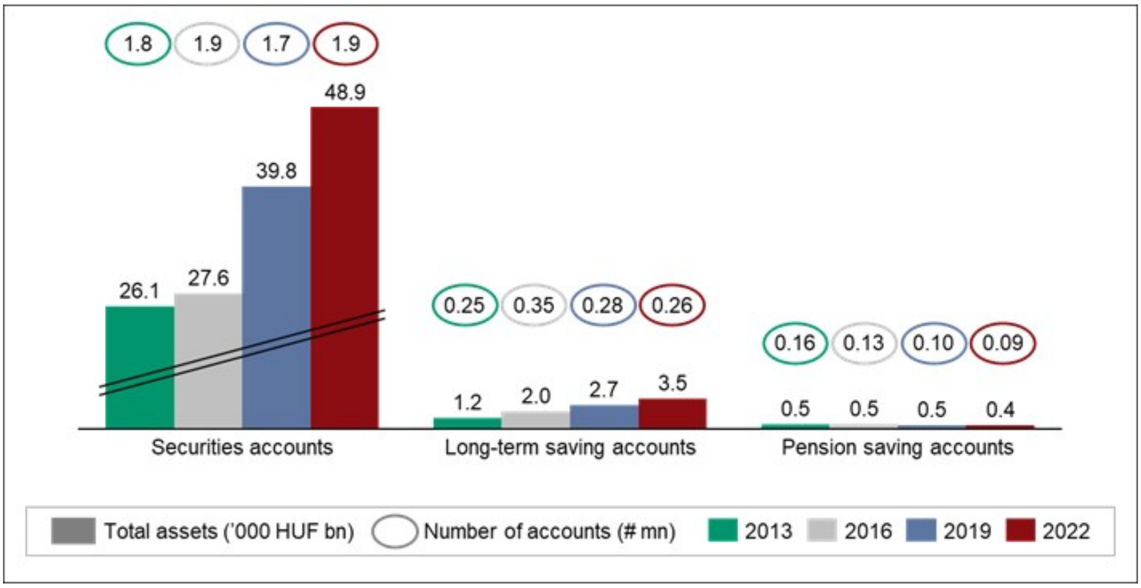
Opportunities should be explored to make listed status more attractive to companies. An example is to review the tax treatment of employee share schemes in listed companies. Currently, these are mainly used by foreign companies in Bulgaria, but they offer the potential for companies to reward employees by giving them participation in ownership of the company and simultaneously extending the retail shareholder base.

In the longer term, there should be a review of the possibility of consolidating existing tax incentives for investment into a single tax incentive scheme for long-term capital

[7] https://ec.europa.eu/commission/presscorner/detail/en/ip_22_7348

market savings by individuals to promote investments in companies at different stages of their growth. (See box with example of the Hungarian investment account schemes.)

Total assets and number of accounts in the Hungarian securities saving account scheme



Normal securities account	*Long-term saving account*	*Pension saving account*

• Both for legal entities and private individuals
• No limit on amount invested
• No term
• Taxation
  ○ Base case: 15% on interest or capital gain
  ○ Hungarian government securities: 0%
• Account keepers: banks, brokerage companies
• Investor Protection Fund guarantee up to EUR 100,000
	• Private individuals only
	• Min. investment: HUF 25,000
	• Max. 5 years term
	• Tax advantages
	  ○ 0-3 years holding period: 15% on interest or capital gain
	  ○ 3-5 year: 10%
	  ○ 5 years – 0%
	• Account keepers: banks, brokerage companies
	• Investor Protection Fund guarantee up to EUR 100,000
		• Private individuals only
		• No limit on amount invested
		• No term
		• Tax advantages
		  ○ Zero tax after min. 10 years holding and reaching the retirement age
		  ○ Tax refund: up to the amount invested but max. HUF 100,000 annually
		  ○ transferred to the account
		• Can be transformed into long term-saving account
		• Account keepers: banks, brokerage companies
		• Investor Protection Fund guarantee up to EUR 100,000

	Action	Responsible	Timing	Priority
1.22	Review the possibility of permitting pension funds to invest up to specific thresholds of their total assets in securities which are admitted to trading on an SME growth market (such as BEAM)	MoF, FSC, BASPSC	S	H
1.23	Follow up the implementation of the EU Listing Act in Bulgaria after it is agreed at EU level	MOF	M	O
1.24	Explore ways to make employee share ownership more attractive for listed companies	MOF	M	O
1.25	Consider extending the tax relief on capital gains on BEAM beyond the end of 2025	MoF, FSC	M	O

Develop Sustainable Finance Opportunities

Sustainability and green finance is a growing field with strong demand from investors. There are opportunities for Bulgaria to finance important initiatives using capital market instruments. This requires several steps.

Prepare the market for sustainable finance

The Gap Analysis[8] described the range of current developments that will affect Bulgarian businesses and investors as a result of EU and international initiatives to enhance disclosure of compliance with sustainability standards. A priority therefore is to help prepare businesses and investors to comply with these requirements and see them as an opportunity to enhance their international position rather than as a burden.

This requires a programme, first, to raise awareness with the local business community and, second, to work with national authorities on developing a national approach (supporting conditions for sustainable finance in line with EU guidelines). Such a programme needs to be defined and should be eligible for international support.

Develop the bond market to support environmental and social initiatives

The objective is for companies and public sector bodies to develop bond frameworks and strategy to enable access to the green, social and sustainability (GSS+) bond and loan markets and to develop a thriving market for sustainable debt issuance and investing. Labelling is no longer sufficient in international markets and issuers are expected to be able to articulate their sustainability strategy, any commitments (e.g. decarbonisation targets, social performance indicators) and their approach to climate change mitigation and adaptation. This means that while frameworks may be similar from the point of view of eligible funding categories and/or common key performance indicators, there will be a need for “customisation” when it comes to the context of issuance, i.e. how the issuance fits into the overall strategy of the entity.

This may require the public sector (national and municipal governments, state-owned enterprises and government institutions) leading by example to raise funding for public good projects, social infrastructure and/or as a conduit for commercial projects. Sovereign issuance, in particular, generates heightened visibility, especially for the first issue, and generally creates pricing benchmarks and liquidity for private market participants. Large municipal issues can have a similar impact in market development. Public support in the form of backstop guarantees by government, or by international DFIs (e.g. MIGA, EBRD), could also help de-risk deals and encourage foreign private sector participation.

This will depend on an infrastructure of professionals able to provide the support needed to prepare issues, including but not limited to assessing the credentials of

[8] Gap Analysis, page 126

lending and/or investment projects, assets and companies, developing frameworks and sustainability strategy, undertaking independent external reviews of frameworks (second party opinions or similar), structuring and bookrunning bond issues.

Initially, it will be desirable to provide financial support for the costs of carrying out evaluation of proposed categories for eligibility against international criteria, and/or for independent external reviews of frameworks (SPOs). Financial support may also be provided in the form of listing fee reduction and/or waiver.

Capital Market Support Program in Georgia

The Capital Market Support Program (CMS)* in Georgia is funded by the European Union and is implemented by the EBRD. Its overall objective is to facilitate capital market development in Georgia. One of the three elements making up the program is co-financing for costs related to obtaining financing in the capital market for selected companies.

In 2022, the EU and EBRD supported the issue of a USD80 mn green bond by Georgia Renewable Power Operations under the programme. The company received a generous contribution from the EU to co-finance issue-related fees.

* https://cms.org.ge/en/about-project

Incentives for SRI issues in Malaysia

As part of ongoing efforts to encourage green financing, in 2018 the Malaysian Securities Commission established the Sustainable and Responsible Investment Sukuk and Bond Grant Scheme, administered by Capital Markets Malaysia*. Eligible issuers can apply for a grant that covers up to 90% of the costs incurred by issuers on independent expert reviews of sustainable bond and sukuk issuances, up to MYR300,000 (€62,000). Issuance expenditure is also eligible for tax deductions.

As of June 2022, it had benefited 15 issuers involved in renewable energy, green buildings and other sustainable projects.

* https://www.capitalmarketsmalaysia.com/public-sri-sukuk/

Another aspect of growing the market is to create platforms and products that allow for the aggregation of smaller projects. Incentivising asset managers to create sustainable finance investment products for retail and international investors, can significantly simplify access to opportunities, suitability due diligence and bond listings, alongside developing a pipeline for issuance. Similarly, incentivising banks to refinance suitable loan portfolios in the bond market can facilitate market growth and enhance visibility. One format could be incentives for green bonds with dual recourse to the financial institution and the collateral reference pool of green loans, i.e. green covered bonds.

	Action	Responsible	Timing	Priority
1.26	Define a programme of education and capacity building for lenders, investors and supporting services related to sustainable finance (assessment approaches, standards and taxonomies, deal structures, frameworks and portfolio integration) using Technical Assistance where available	BDB	S	H
1.27	Government to consider issuing green and/or sustainability bond (preferably certified) – examples provided in Gap Analysis	MOF	M	H
1.28	Bulgarian Development Bank to issue green and/or sustainability bond (green and social categories) – examples provided in Gap Analysis	BDB	M	H
1.29	Explore funding to private issuers for issuance expenses (e.g. consultant fees for framework development, external reviews) either from government or from DFIs (recent example in Georgia);	Ministry of Economy and Growth	S	H
1.30	Municipalities to assess the possibility to issue green bonds and/or sustainability bonds – examples provided in Gap Analysis	Municipalities	M	O
1.31	BDB to assess the possibility of developing an aggregation platform for green bond issuance – to warehouse loans provided by banks or in conjunction with banks, and refinance in the green bond market	BDB	M	O
1.32	BDB to assess the possibility to work with EBRD / World Bank / MIGA / IFC to develop a de-risking issuance structure to support Bulgarian issuers or projects, particularly public sector low carbon infrastructure and/or transition project financing.	BDB	M	O
1.33	BDB or Ministry of innovation and growth to undertake a green investment opportunities assessment (e.g. through EU funding programmes and Climate Bonds GIIO programme)	BDB/ MIG	M	O
1.34	BSE to implement a green or sustainable segment in the market in order to give greater visibility to issues that meet these standards	BSE	M	O
1.35	Government to assess the possibilities to introduce tax incentives for investors in green bonds, based on experience in other countries	MOF	M	O

- Define programmes for education and capacity building within the finance sector (lenders, pension funds, asset managers, insurance companies) to undertake climate-related scenario analysis and stress testing (e.g. using NGFS scenarios and the services of analytics providers) to help assess risks and opportunities and identify policy areas for action.

Use of the capital markets in this way would be supported by developments in the broader economy that raised their attractiveness:

- Adopt forthcoming EU sustainability corporate reporting standards – Corporate Sustainability Reporting Directive (CSRD), European Sustainability Reporting Standards (ESRS) – as part of wider focus on improved disclosure to build trust in companies and other issuers. A significant barrier for sustainable finance could be the lack of relevant data on the sustainability of local companies and their economic activities. This will need to be addressed both at company level (given that larger companies will be subject to CSRD reporting requirements in the coming years), but might also require a national approach for collecting/comparing data.

- Ensure compliance with the Sustainable Finance Disclosure Regulation (SFDR) for investors, investment products and investment advisors to build trust in sustainability products (bonds, investment or pension funds, equities issued by climate-aligned companies).

Objective 2: Build trust in the Market

Building trust in the markets will depend on strengthening corporate governance (which includes addressing the problem of dormant accounts (which undermines good corporate governance) and improving corporate disclosure. It will be supported by strengthening the government securities market so that it provides a reliable benchmark for other securities issues (included under Objective 1).

Strengthen corporate governance

Apart from the issue of dormant shareholders, investors are not willing to invest in companies where they feel their interests will not be respected by company management. Good corporate governance is the means for making management accountable to shareholders and building trust in the market.

Referring to the regime of independent directors in a listed company,[9] the assessment of the independence of a particular director should be based on substance rather than form while the present regime seems to imply form over substance as an approach to assessment. The latter may lead to situations where independent directors might have affiliations with the public company which prejudice their actual independence.

To make the legal and regulatory environment more supportive of these objectives the following legislative amendments may be assessed:

- Expand the assessment criteria of independence of directors in a listed company such as those under Annex II of EU Commission Recommendation of 15 February 2005 on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board and introduce the concept that assessment criteria for independence is non-exhaustive while taking into account specific circumstances of the person or company.
- In order to support the interests of the minority investors in an environment of limited free float in listed companies, align Art. 114 of the Bulgarian Law on Public Offering of Securities (LPOS) with the minimum standard required under the Shareholder Rights Directive (following its amendment by Directive (EU) 2017/828). The suggested measure is to limit the disclosure and approval requirement to material related party transactions in a listed company and exclude material transactions with unrelated parties from the specific approval regime applicable to listed

[9] There is a requirement under Bulgarian law applicable to a listed company that one third of its board of directors in a one-tier management system or its supervisory board respectively in a two-tier management system should be independent of the company, its shareholders, the management of either or the company business partners.

companies[10]. The shareholder approval in respect of material transactions with unrelated parties is generally controlled by the vote of the majority shareholders because, unlike related party transactions, majority shareholders will not be conflicted to take part in the vote. Thus, the minority vote would not be able to effectively block the approval of a material transaction with unrelated parties and may have limited available remedies to hold the management accountable for it. If a material transaction has been approved by the general meeting of shareholders, minority shareholders might not be able to resort to a derivative claim against the company's management for the same transaction.

- Remove the consequences of failure to obtain prior shareholder/administrative body approval for transactions under Art. 114 of LPOS of nullity of the transaction. The consequences of nullity of the transaction which lacks corporate approval might affect legitimate interests of third parties who may have acted in good faith. This is especially relevant for material transactions with unrelated parties where the vote is controlled by the majority shareholder and the issue of conflict of interest does not exist. As explained above the requirement for corporate approval for material transactions with unrelated parties does not protect minority shareholders' interests but may still prejudice third parties if the transaction is null and void for failure to obtain such approval.

	Action	Responsible	Timing	Priority
2.01	Raise the profile of the annual IR awards for best shareholder communication etc (like the Baltic Awards).	BSE	S	O
2.02	Raise standards of corporate governance by developing and accrediting training courses and giving publicity to corporate governance issues, based on evaluating best practice in other countries.	NCGC (NKKU)	M	O
2.03	Assess the possibility to improve the regime of independent directors in a listed company by expanding the assessment criteria of independence such as those under Annex II of *EU Commission Recommendation of 15 February 2005 on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board* and introducing the concept that assessment criteria for independence is	MOF	M	O

[10] The general commercial law regime would still apply to make certain material transactions with unrelated parties subject to corporate approval, but under the general regime the thresholds for approval are higher, the general meeting of shareholders is allowed to transfer the authority for such approval to the board of directors (in a one-tier management system) , or the management and supervisory board, respectively (in a two-tier setting) and the lack of approval does not invalidate the transaction thus affecting third parties interests.

	Action	Responsible	Timing	Priority
	non-exhaustive while taking into account specific circumstances of the person or company.			
2.04	Assess the possibility for alignment of Art. 114 of LPOS with the minimum standard required under the Shareholder Rights Directive (following its amendment by Directive (EU) 2017/828) limiting the disclosure and approval requirement to material related party transactions in a listed company and excluding material transactions with unrelated parties. Remove the consequences of failure to obtain prior shareholder/administrative body approval for transactions under Art. 114 of LPOS of nullity of the transaction.	MOF	M	O

Address issue of dormant accounts

The existence of a large number of accounts in the name of shareholders who do not participate in the governance of companies or manage their holdings undermines accountability of corporate management, reduces trust in the market and reduces liquidity.

In 2019 the Ministry of Finance proposed a draft bill[11] aiming to re-activate dormant accounts holding shares acquired from the mass privatization and ultimately resolve the issue with dormant accounts. The proposed approach was to transfer all dormant accounts to an investment fund which would be managed by a fund manager (a licensed management company or licensed AIF manager). The fund manager would then make a valuation of all securities from dormant account transferred to the fund and will assign shares in the fund to their holders. Then the holders of the new shares in the fund would be allowed to place such shares to be redeemed by the fund within a specific time (5 years). If they fail to do so all funds received from the redemption would be transferred to the state budget. However, this proposal was not approved. The main objections seem to have been that it would deprive shareholders of their property, the transfer of funds to the state budget was equivalent to renationalization and that the creation of the fund would create a dominant investor in the market.

It may be possible to learn from the actions taken in Slovenia and the UK (see boxes).

[11] https://www.minfin.bg/bg/1323

Treatment of dormant securities accounts - Slovenia

Slovenia faced a similar problem to Bulgaria concerning dormant accounts in companies from the mass privatisation programme, which undermined corporate governance and caused an overhead burden for the CSD, KDD.

The authorities in Slovenia followed a legal route to address the problem, taking care to address the constitutional issues that might cause challenges to the solution. In the first phase notice was given that registry accounts held by individuals directly in KDD must be moved to a client account at a broker. There was a two-year period for this process, which was accompanied by a widespread publicity campaign, including promotions from brokers to attract accounts.

Following this two-year period, there was a two-year period for remaining registry accounts to be moved to accounts controlled by the court. During the final year to the end of 2021, the Court-controlled accounts were moved to the State Pension Fund. Some 17,000 accounts were moved, mostly in unlisted companies and the State Pension Fund was given an exemption from normal takeover rules, in case it became a dominant shareholder as a result of the moves.

Treatment of dormant securities accounts – UK

In the UK a system for dealing with dormant bank accounts has been in place since 2008. The key points of this scheme are:

- The aim is to reunite owners with their financial assets through tracing.
- Dormant assets remain the property of the owners and can be reclaimed in perpetuity.
- Funds from dormant bank accounts are transferred to Reclaim Fund Ltd (RFL)*.
- RFL retains 40% of funds to repay any owners who come forward to claim them.
- RFL releases 60% of funds to social and environmental initiatives. So far GBP892mn (€1bn) has been released**.

In 2022 the scheme was extended to include unclaimed units in collective investment schemes, unclaimed shares issued by listed companies and proceeds from corporate actions, when there has been no contact with the owner for at least 12 years. Participation in the scheme is voluntary for wealth managers and listed companies.

- Shares will be sold and the proceeds transferred to RFL together with the cash value of unclaimed corporate action proceeds.

- Shareholders who subsequently reclaim assets from RFL would be able to do so in perpetuity based on the value at the time of the transfer to RFL.
- RFL will retain a proportion to repay any owners who come forward to claim their assets.
- The remainder will be released to social and environmental initiatives.

* https://www.reclaimfund.co.uk

** See https://www.gov.uk/government/news/millions-released-from-dormant-accounts-to-support-vulnerable-people-with-cost-of-living

	Action	Responsible	Timing	Priority
2.05	Assess the possibilities for raising public awareness on dormant accounts and resolving this issue, building on other markets' solutions and experiences	MOF	M	H

Improve corporate disclosure

Investors' confidence depends on having access to reliable information from issuers. This includes disclosure relating to assets qualifying as sustainable finance.

The FSC is required by law to maintain a centralized database of all regulated information public companies are required to disclose which should be public and freely accessible, while public companies have various options on the means and place of disclosure. A Unified Information System of the FSC which aims to achieve this objective is currently in the process of development. The lack of publicly accessible centralized database maintained by the FSC makes it difficult for investors to obtain reliable information on issuers and the market.

In mid-2022 the FSC introduced its new website which is a step forward in improving user experience. However, the way information about authorised entities and regulatory actions is presented on the website may be further optimised and expanded to achieve a clearer website vision, smoother user experience and more efficient, searchable presentation of the information (see more detail in action 2.08).

	Action	Responsible	Timing	Priority
2.06	Completion and implementation of a Unified Information System of the FSC as a single access point for company data for public companies where regulated information (financial and non-financial statements) and inside information is published in searchable format with appropriate search engines.	FSC	S	H
2.07	Improve quality of access to public registries maintained by the FSC by means of prompt and full update of all circumstances subject to registration	FSC	S	H
2.08	Optimize the way information is presented on the FSC website by introducing a single access point listing all authorized entities allowed to act in Bulgaria including on cross border basis without local establishment; public disclosures of infringements presented in searchable way with appropriate search engines; all decisions, guidelines, recommendations and all other acts of the FSC presented in searchable way with appropriate search engines and an easy to access FAQ format, etc	FSC	S	O
2.09	After the implementation of ESAP and the new system of FSC to review if there is further need to streamline the access to information which is valuable for investors	FSC	M	O
2.10	Bulgarian Stock Exchange to develop tagging for GSS+ bonds that align with EU GBS; Climate Bonds Standard (Certified Climate Bonds); ICMA Green Bond Principles, Social Bond Principles, Sustainability-linked Bond Principles; and other similar frameworks	BSE	M	O
2.11	BSE to maintain a central “Golden Source” of sustainability data for issuers, available to investors	BSE	M	O

Objective 3: Make Capital Markets Cheaper and More Efficient

Uncertainty and cost in the legal and regulatory environment discourage firms from using the markets. This requires changes in two areas: to make the legal and regulatory environment more supportive and to streamline the regulatory process. The post-trade infrastructure can also create costs to the use of capital market finance.

Make the legal and regulatory environment more supportive

Many of the legal requirements for capital markets in Bulgaria derive from EU legislation. This must be complied with, even where this EU legislation is not well suited to a smaller, emerging market, such as Bulgaria. However, there are areas where there is room for flexibility in applying EU rules to the Bulgarian market and use can be made of these areas of discretion. There are also instances of more restrictive national measures being introduced in addition to EU harmonizing rules which may be revisited.[12]

To this end legislative amendments in the following areas may be assessed:

- The FSC may revisit its practice of introducing guidelines and recommendations of European Supervisory Authorities (such as ESMA, EBA and EIOPA) that are not legally binding into Bulgarian law by implementing regulations and maintaining only a reference to their application in the national implementing measures which qualify as legislation.

- The application of the registration regime for financial institutions under Art. 3a of the Bulgarian Law on Credit Institutions (LCI) may be limited to the activity of acquisition of shareholdings in credit institutions and other financial institutions, if the same is exercised by way of occupation, as opposed to the broader definition of any “acquisition of shareholdings” as currently defined in Article 3 (1) item 2 of the LCI. In this way the regime under Directive 2013/36/EU and Regulation (EU) 575/2013 put in place for the purposes of prudential supervision of credit institutions and their groups on consolidated basis will not interfere with the local registration regime under Art. 3a of the LCI. Most importantly, the registration regime under Art. 3a of the LCI should exclude the activities of AIFs under Directive 2011/61/EU and the activities of investment vehicles established for own investments where no asset management services are provided.

[12] A comparative analysis of the implementation of the main EU harmonizing measures in specific areas and conclusions where local regime is more or less stringent than the EU harmonizing measures and where some flexibility is available on local level to apply less stringent regime is made in the Gap Analysis Report, page 101 et seq.

- The scope of the licensing regime introduced for Securitization Special Purpose Entities (SSPE) within the meaning of Regulation (EU) 2017/2402 (SSPE) may be revisited. It should be assessed whether the licensing regime for SSPE should apply in all cases of securitization and thus to securitization as type of activity (as the current regime) or to limited cases where the SSPE offers securities to non-professional investors, makes public offerings or lists securities on a regulated market or MTFs/OTFs and thus to specific types of offerings where grater investor protection is required rather than to the activity as a whole.

- The sanctions regime under MiFID II implementing legislation may be revisited to introduce lower floor sanctions.

	Action	Responsible	Timing	Priority
3.01	The FSC to refrain from its practice of introducing guidelines and recommendations of European Supervisory Authorities (such as ESMA, EBA and EIOPA) that are not legally binding into Bulgarian law by implementing regulations but keeping only a reference to their application in the national implementing measures which qualify as legislation.	FSC	S	H
3.02	Limit the registration requirement for financial institutions under Art. 3a of the LCI to the activity of acquisition of holdings in credit institutions and other financial institutions, if exercised by way of occupation, as opposed to any “acquisition of holdings” as currently defined in Article 3 (1) item 2 of the LCI	MOF	S	H
3.03	Assess the possibility for revision of sanctions regime under MiFID II implementing legislation by introducing lower floor sanctions.	MOF, FSC	S	H
3.04	Assess the possibility to limit the scope of the licensing regime for Securitization Special Purpose Entities to cases where the securitizations are carried out on continuous basis and securities are offered to non-professional clients or in public offers rather than private placements or are listed on a regulated market or MTFs/OTFs.	MOF, FSC	M	O

Streamline regulatory processes

While a high standard of regulation is a necessary requirement for a sound capital market, it can be exercised in a way that does not unnecessarily impede market activity. Among other things, good knowledge of market practice by the regulator and open communication can facilitate this.

	Action	Responsible	Timing	Priority
3.05	Develop regular contact with supervised institutions for two-way communication	FSC	S	H
3.06	To support harmonised and transparent approach to supervision the FSC may make greater use of its powers to give instructions and guidelines on law interpretation including by making information available in an easy to access FAQ format, introducing rulebooks containing guidelines on procedures and processes, etc.	FSC	M	H
3.07	Improve efficiency of regulatory processes by complying with a requirement of prompt action even before the expiration of applicable time limit set by law especially where additional instructions or requests are made to supervised entities.	FSC	M	O
3.08	Improve approach to financial supervision by regulators by prioritizing both investor protection and development of the capital market as objectives of financial supervision at all stages of such supervision including in supervising conduct of business by supervised entities and in applying administrative measures and sanctions.	FSC	M	O
3.09	FSC to explore funding for capacity building from, eg, DG REFORM	FSC	M	O

Streamline the CSD infrastructure

The CSD infrastructure is the foundation of the securities market. Costs or inefficiencies here add to the overall cost and inefficiency of the markets. The objective therefore is to lower the cost of using capital markets and improve Bulgarian securities' accessibility.

Since the Gap Analysis report was completed both CSDs have signed the framework agreement to join the Eurosystem's T2S infrastructure[13] and – after successful testing – both CSDs are expected to join T2S in September 2023. As the eurozone accession is now pushed back to 1 January 2025, this means that both CD AD and BNBGSSS as issuer CSDs will move in with euro denominated securities (cca. 20 ISINs for CD AD and 1 ISIN for BNBGSSS) only. After Bulgaria joins the euro area, both CSDs are expected to move all eligible securities and transactions to T2S and be using the high

[13] https://www.ecb.europa.eu/paym/intro/news/html/ecb.mipnews221021.en.html and https://www.ecb.europa.eu/paym/intro/news/html/ecb.mipnews221222.en.html

functionality of the T2S infrastructure to its full extent and access to Bulgarian securities will be greatly enhanced.

Joining T2S also requires harmonisation of market practices with those used in T2S. Both CSDs are currently preparing their assessment reports that also include status/meeting of the main eligibility criteria. Furthermore, the compliance with detailed T2S (Priority 1 and Priority 2) harmonisation activities will be closely monitored by ECB. It is important to ensure that market practices are brought in line with the harmonised market practices used in T2S.

However, it remains the case that the existence of two CSDs in the market doubles the cost of infrastructure and requires market participants to connect to both.

In any case, the CSD business is IT intensive, for the efficient operation needs high level of automation. CD AD operates both a CSD and a registry system. After joining T2S with all eligible securities, CDAD could consider outsourcing its CSD operations to the state-of-the-art infrastructure (securities admin and local and cross-border settlements).

The distribution of locally issued mutual funds is uncompetitive with foreign funds. Although CDAD provides significantly lowered registration fees for certain fund types it does not cover all types of locally issued funds. In more general terms, the legal requirement for individual investors in Bulgarian mutual funds to be registered at the CSD is an additional cost which contributes to their un-competitiveness. Although it is a source of income for CDAD and provides some reassurance for investors, the necessity for this registration should be reviewed and considered providing a similar handling than for clients of global custodians having a direct membership in the CSD, where no such registration is required.

	Action	Responsible	Timing	Priority
3.10	Ensure market practices continue to be harmonised with T2S standards	CDAD/ BNBGSSS	S	H
3.11	Initiate discussion on owner level regarding potential merger in order to decrease the costs for the users of the CSDs, prepare concept paper (ownership, finances, operational model, systems, personnel, mid-term strategy etc.), make decision	MOF, BNB	M	H
3.12	Review how the registration-related costs for locally issued mutual funds could be lowered/eliminated in order to make this segment more attractive to investors.	CDAD , BAAMC	M	O

	Action	Responsible	Timing	Priority
3.13	CDAD to consider replacing its CSD system with the T2S infrastructure	CDAD	L	O

Review the need for clearing services

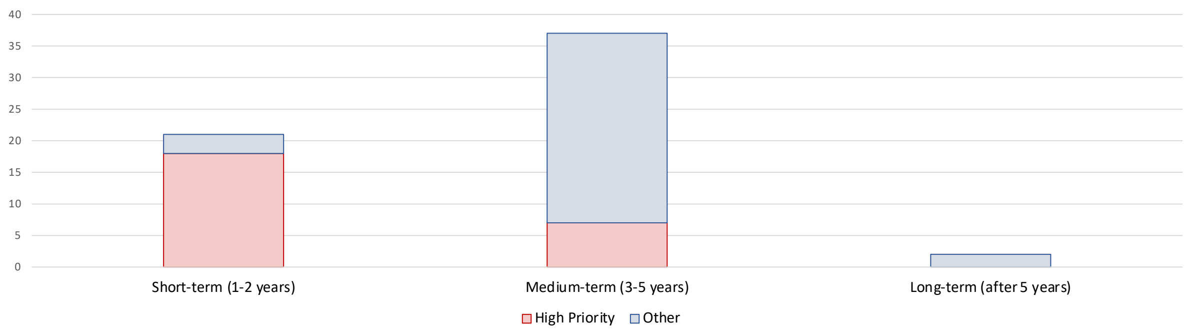
A central counterparty (CCP) can be a valuable element of post-trade processes: it is essential for derivative markets and becomes necessary in cash securities markets when volumes and values reach a certain threshold. Cash securities markets are not at that level yet and the discussions with AthexClear to provide clearing for derivative markets have also been suspended recently due to lack of local interest mainly. However, the situation should be kept under review. The next step would be to evaluate the costs and benefits of implementing clearing services, including analysis of the possibility of developing links to an existing.

	Action	Responsible	Timing	Priority
3.14	Review the need to prepare a Cost-Benefit Analysis for clearing services (evaluate different options)	FSC	L	O

High-level Plan

This report contains 60 recommended Actions. Most of the high priority Actions fall in the short-term time horizon (1-2 years from the start of the programme), as shown in Chart 4, which also highlights the main focus of actions in each period.

Chart 4: Timeline of actions and priorities



KEY AREAS FOR ACTIONS

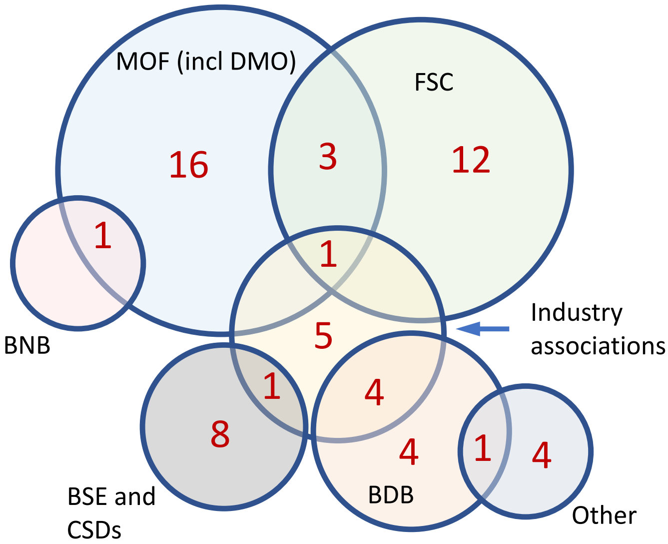
- Strengthen government bond market liquidity
- Develop bond issuance
- Liberalise pension fund investments
- Build capacity for sustainable finance
- Streamline regulation
- Improve access to information

- Adapt government bond market to € accession
- Start sustainable bond issuance
- Revisit dormant account issue
- Review possibility of CSD merger
- Develop green finance market
- Build early-stage finance ecosystem
- Strengthen corporate governance
- Enhance competitiveness of local mutual funds

- Post-trade restructuring

Most of the actions fall to public sector institutions, as shown in Chart 5.

Chart 5: Allocation of responsibility for actions by type of institution



A full list of actions sorted by timing and priority is attached.

List of actions by timing and priority

	Action	Responsible	Timing	priority
1.03	Assess the need to change the “Instruction” of the Ministry of Finance in the sense of: - Augmenting the number of obligatory hours of trading (instead of 3 hours); - Defining precisely the Bid/Offer spread per Maturity bands/benchmarks; - Reduce considerably the spread from 50 BPS to a close market-oriented spread depending on the maturity.	DMO	S	H
1.04	Create clear rules of enforcement in the Secondary market with monitoring of the E-platform in order to be able to give the incentives in the Primary Market.	DMO	S	H
1.06	Create a yield curve based on executable, real time prices, to allow the price calculation of a larger range of securities.	DMO	S	H
1.09	Raise awareness of opportunities for bond issuance by banks	BSE	S	H
1.10	Raise awareness of opportunities for bond issuance by SMEs	BSE	S	H
1.11	Raise awareness among banks of the potential for issuing covered bonds	ABB	S	H
1.15	Amendment of Social Insurance Code to remove impediments to investments in AIFs by pension funds due to (i) restrictions applying to pension funds to invest in instruments which are not fully paid in and (ii) requirements to maintain continuous compliance with applicable thresholds in case of changes in the valuation of its investments which might not be suitable for investments in private companies.	FSC, MoF	S	H
1.17	Review the possibility of allowing pension funds to allocate part of their portfolio to external fund managers	FSC, MoF	S	H
1.22	Review the possibility of permitting pension funds to invest up to specific thresholds of their total assets in securities which are admitted to trading on an SME growth market (such as BEAM)	MoF, FSC, BASPSC	S	H

1.26	Define a programme of education and capacity building for lenders, investors and supporting services related to sustainable finance (assessment approaches, standards and taxonomies, deal structures, frameworks and portfolio integration) using Technical Assistance where available	BDB	S	H
1.29	Explore funding for issuance expenses (e.g. consultant fees for framework development, external reviews) either from government or from DFIs (recent example in Georgia);	Ministry of Economy and Growth	S	H
2.06	Completion and implementation of a Unified Information System of the FSC as a single access point for company data for public companies where regulated information (financial and non-financial statements) and inside information is published in searchable format with appropriate search engines.	FSC	S	H
2.07	Improve quality of access to public registries maintained by the FSC by means of prompt and full update of all circumstances subject to registration	FSC	S	H
3.01	The FSC to refrain from its practice of introducing guidelines and recommendations of European Supervisory Authorities (such as ESMA, EBA and EIOPA) that are not legally binding into Bulgarian law by implementing regulations but keeping only a reference to their application in the national implementing measures which qualify as legislation.	FSC	S	H
3.02	Limit the registration requirement for financial institutions under Art. 3a of the LCI to the activity of acquisition of holdings in credit institutions and other financial institutions, if exercised by way of occupation, as opposed to any “acquisition of holdings” as currently defined in Article 3 (1) item 2 of the LCI	MOF	S	H
3.03	Assess the possibility for revision of sanctions regime under MiFID II implementing legislation by introducing lower floor sanctions.	MOF, FSC	S	H
3.05	Develop regular contact with supervised institutions for two-way communication	FSC	S	H
3.10	Ensure market practices continue to be harmonised with T2S standards	CDAD/BNBGSSS	S	H

1.01	Identify opportunities for SOEs and public authorities to finance developments through bond issuance	Relevant ministries, municipalities	S	O
2.01	Raise the profile of the annual IR awards for best shareholder communication etc (like the Baltic Awards).	BSE	S	O
2.08	Optimize the way information is presented on the FSC website by introducing a single access point listing all authorized entities allowed to act in Bulgaria including on cross border basis without local establishment; public disclosures of infringements presented in searchable way with appropriate search engines; all decisions, guidelines, recommendations and all other acts of the FSC presented in searchable way with appropriate search engines and an easy to access FAQ format, etc	FSC	S	O
1.07	Rethink the overall issuance and distribution strategy of the Primary and secondary in view of the new competitive framework created by the government securities being denominated in Euros.	DMO	M	H
1.12	Encourage development of retail fixed income funds which could invest also in government securities	BAAMC	M	H
1.27	Government to consider issuing green and/or sustainability bond (preferably certified) – examples provided in Gap Analysis	MOF	M	H
1.28	Bulgarian Development Bank to issue green and/or sustainability bond (green and social categories) – examples provided in Gap Analysis	BDB	M	H
2.05	Assess the possibilities for raising public awareness on dormant accounts and resolving this issue building on other markets' solutions and experiences	MOF	M	H
3.06	To support harmonised and transparent approach to supervision the FSC may make greater use of its powers to give instructions and guidelines on law interpretation including by making information available in an easy to access FAQ format, introducing rulebooks containing guidelines on procedures and processes, etc.	FSC	M	H
3.11	Initiate discussion on owner level regarding potential merger in order to decrease the costs for the users of the CSDs, prepare concept	MOF, BNB	M	H

	paper (ownership, finances, operational model, systems, personnel, mid-term strategy etc.), make decision			
1.02	Identify SOEs suitable for listing minority shares	Relevant ministries, Council of Ministers, Parliament, PECA	M	O
1.05	Analyse the possibilities to augment the list of potential Primary Dealers, including with international dealers, in order to leverage the bargaining position of the DMO of the Ministry of Finance.	DMO	M	O
1.08	Analyse the possibility to join the Euro MTS platform for more visibility of Bulgarian Bonds and for a more efficient trading platform in Euro denominated Bonds. As most PDs in Europe are already connected, Euro MTS will allow the Bulgarian securities to join an existing pool of liquidity of Euro denominated debt	DMO	M	O
1.13	Elaborate a concept paper analysing and defining the possible supporting role of the Bulgarian State in incubation and acceleration of early-stage growth companies	BDB, BVCA	M	O
1.14	BDB to explore opportunities to work with local stakeholders to develop local accelerators and thus, to support growing companies to use capital markets. (VC finance)	BDB, BVCA	M	O
1.16	Follow up whether pension fund investments in AIFs have increased after the removal of the impediments to investments	FSC	M	O
1.18	Explore cooperation opportunities with EIF and private investors (asset managers - GPs) to set up investment vehicles to support VC / PE finance to SMEs	BDB, BVCA	M	O
1.19	Explore opportunities to set up VC / PE funds where the funds are provided by BDB and private investors with the goal to finance local growth companies	BDB, BVCA	M	O
1.20	Define the key features of VC/PE funds which can offer a suitably diversified VC/PE portfolio for local institutional investors, managed by an asset manager to be selected by the investors	BVCA, BASPSC, ABI	M	O

1.21	Elaborate an education campaign to focus on improvement of overall financial literacy of eligible private investors with regards to VC / PE investments	BVCA	M	O
1.23	Follow up the implementation of the EU Listing Act in Bulgaria after it is agreed at EU level	MoF	M	O
1.24	Explore ways to make employee share ownership more attractive for listed companies	MOF	M	O
1.25	Consider extending the tax relief on capital gains on BEAM beyond the end of 2025	MoF, FSC	M	O
1.30	Municipalities to assess the possibility to issue green bonds and/or sustainability bonds – examples provided in Gap Analysis	Municipalities	M	O
1.31	BDB to assess the possibility of developing an aggregation platform for green bond issuance – to warehouse loans provided by banks or in conjunction with banks, and refinance in the green bond market	BDB	M	O
1.32	BDB to assess the possibility to work with EBRD / World Bank / MIGA / IFC to develop a de-risking issuance structure to support Bulgarian issuers or projects, particularly public sector low carbon infrastructure and/or transition project financing.	BDB	M	O
1.33	BDB or Ministry of innovation and growth government to undertake a green investment opportunities assessment (e.g. through EU funding programmes and Climate Bonds GIIO programme)	BDB/MIG	M	O
1.34	BSE to implement a green or sustainable sector in the market in order to give greater visibility to issues that meet these standards	BSE	M	O
1.35	Government to assess the possibilities to introduce tax incentives for investors in green bonds, based on experience in other countries;	MOF	M	O
2.02	Raise standards of corporate governance by developing and accrediting training courses and giving publicity to corporate governance issues, based on evaluating best practice in other countries.	NCGC (NKKU)	M	O

2.03	Assess the possibility to improve the regime of independent directors in a listed company by expanding the assessment criteria of independence such as those under Annex II of *EU Commission Recommendation of 15 February 2005 on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board* and introducing the concept that assessment criteria for independence is non-exhaustive while taking into account specific circumstances of the person or company.	MOF	M	O
2.04	Assess the possibility for alignment of Art. 114 of LPOS with the minimum standard required under the Shareholder Rights Directive (following its amendment by Directive (EU) 2017/828) limiting the disclosure and approval requirement to material related party transactions in a listed company and excluding material transactions with unrelated parties. Remove the consequences of failure to obtain prior shareholder/administrative body approval for transactions under Art. 114 of LPOS of nullity of the transaction.	MOF	M	O
2.09	After the implementation of ESAP and the new system of FSC to review if there is further need to streamline the access to information which is valuable for investors	FSC	M	O
2.10	Bulgarian Stock Exchange to develop tagging for GSS+ bonds that align with EU GBS; Climate Bonds Standard (Certified Climate Bonds); ICMA Green Bond Principles, Social Bond Principles, Sustainability-linked Bond Principles; and other similar frameworks	BSE	M	O
2.11	BSE to maintain a central “Golden Source” of sustainability data for issuers, available to investors	BSE	M	O
3.04	Assess the possibility to limit the scope of the licensing regime for Securitization Special Purpose Entities to cases where the securitizations are carried out on continuous basis and securities are offered to non-professional clients or in public offers rather than private placements or are listed on a regulated market or MTFs/OTFs.	MOF	M	O
3.07	Improve efficiency of regulatory processes by complying with a requirement of prompt action even before the expiration of applicable time limit set by law especially where additional instructions or requests are made to supervised entities.	FSC	M	O

3.08	Improve approach to financial supervision by regulators by prioritizing both investor protection and development of the capital market as objectives of financial supervision at all stages of such supervision including in supervising conduct of business by supervised entities and in applying administrative measures and sanctions.	FSC	M	O
3.09	FSC to explore funding for capacity building from, eg, DG REFORM	FSC	M	O
3.12	Review how the registration-related costs for locally issued mutual funds could be lowered/eliminated in order to make this segment more attractive to investors.eview the need for requiring registrstion of holders of mutual funds	CDAD, BAAMC	M	O
3.13	CDAD to consider replacing its CSD system with the T2S infrastructure	CDAD	L	O
3.14	Review the need to prepare a Cost-Benefit Analysis for a CCP (evaluate different options)	FSC	L	O