OVERVIEW OF THE BULGARIAN CAPITAL MARKET

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1. MILESTONES

A brief timeline and milestones of the Bulgarian Capital Market is presented below.

- **1862** – First joint stock company is established under the name „Pchela“
- **1907** – First provisional Stock Exchange Act is enacted, regulating the structure and functions of both stock and commodity exchanges in the country.
• 1914 – Sofia Stock Exchange established
• 1918 – The Stock Exchange commences trade with 21 companies listed
• 1925-28 – Trading on the exchange ceases
• 1933 – Trade commences again, 30 companies are listed and trade volumes increase
• 1947 – Sofia Stock Exchange ceases its operations.
• 1991 – Bulgarian capital market is re-established with the introduction of the Commerce Act. First Bulgarian Stock Exchange established as a joint stock company.
• 1995 – The regulatory framework of the Bulgarian regulated capital market is set up after the adoption of the Securities, Stock Exchanges and Investment Companies Act (SSEICA). In compliance with the Act, a Securities and Stock Exchanges Commission (SSEC) is established as a regulator and watchdog of the securities market in Bulgaria. The Bulgarian Stock Exchange is established following the merger of several regional exchanges.
• 1996 – The Central Depository JSC is established.
• 1996-1997 – More than 80 privatization funds are established and licensed by the SSEC. They raise capital by collecting investment vouchers from the public and participate in the mass privatization process purchasing shares of stock in the capital of the privatized state-owned companies.
• 1997 – Bulgarian Stock Exchange JSC changes its name to Bulgarian Stock Exchange–Sofia (BSE-Sofia) JSC. BSE-Sofia JSC is officially licensed as a Stock Exchange by the Bulgarian Securities and Stock Exchanges Commission.
• Public companies become regulated entities following the introduction of amendments to the SSEICA in 1998. The Act provides legal definition of public company and the SSEC is authorized to supervise and regulate the public companies. Prior to that, there are companies which are traded on the existing stock exchanges (about 80 companies in the period 1992-1996) but no special legal rules have been enacted to regulate their activities. The amendments to the SSEICA require eligible companies meeting the criteria for public companies to register with the SSEICA.
• As a result more than 1,000 companies are listed on the Free (OTC) Market as companies privatized in the course of the Mass Privatization Program. BSE-Sofia starts publishing its official daily bulletin.
• 1998 – Elkabel becomes the first listed company on the Official market.
• 1999 – BSE-Sofia introduces the Official market for bonds. ProSoft JSC becomes the first company to make a public offering of a corporate bond issue.
• 1999 – The Public Offering of Securities Act (POSA) is adopted by the Bulgarian Parliament, superseding the former Securities, Stock Exchanges and Investment Companies Act. POSA is a complex act regulating the public offering of securities as well as the activities of investment firms, management companies and investment companies.
• 2000 – BSE-Sofia launches RTS Plaza – a fully automated trading system. The Stock Exchange launches its first index - the SOFIX index.
• 2001 – The Bulgarian American Credit Bank JSC issues the first mortgage bond issue.
• **2001** – BSE-Sofia is licensed by the Commission to organize an Unofficial market of securities, which replaces the Free market.

• **2003** – BSE-Sofia launches its internet-based application for real time authorized and secure access to the BSE Trading System, named COBOS. The National State Securities Commission is replaced by a new supervisory body, the Financial Supervision Commission (FSC), following the merger of three government agencies. The FSC receives a mandate to supervise and regulate the whole non-banking financial sector. BSE-Sofia becomes a correspondent member of the Federation of European Securities Exchanges (FESE).

• **2004** – First IPO carried out.

• **2005** – The Stock Exchange begins calculation of the BG40 index.

• **2006** – Code of Corporate Governance for the public companies is adopted.

• **2007** – EXTRI Integrated information disclosure system launched. BSE-Sofia starts trading bonds with clean prices. The Stock Exchange launches the BG TR30 and BG REIT indexes.

• **2008** – BSE-Sofia introduces the Deutsche Boerse electronic trading system Xetra® and adopts new Rules and Regulations to accommodate the new platform functionalities to the regulatory requirements.


• **2010** – The Stock Exchange increases its capital from BGN 5,867,860 to BGN 6,582,860 and becomes a public company with its shares listed on the Exchange itself.

2. **REGULATORY STRUCTURE OF THE FINANCIAL SYSTEM**

The Bulgarian financial system has a fragmented regulatory structure. The Bulgarian National Bank (BNB) is in charge of the banking system, whereas the Financial Supervision Commission (FSC) is the main regulator of capital markets, investment intermediaries and investment companies (including insurance companies and pension funds). The major institutions are briefly introduced below.

**2.1 Financial Supervision Commission (FSC)**

FSC is the State regulator of the securities market. Its foremost mission is to regulate and exercise control so as to ensure the protection of investors and to enhance the development of a transparent and efficient securities market. The Commission is an independent state body under the authority of the Parliament. As a state authority, similar to securities commissions in Western countries, it regulates and supervises:

- regulated securities markets and MTFs;
- Central Depository JSC;
- investment intermediaries;
- collective investment schemes (open-end investment companies and contractual funds that are UCITS) as well as other undertakings for collective investment such as closed-end investment companies and Special Investment Purposes Companies (REITs);
- asset management companies;
- pension funds;
- insurance and reinsurance companies;
• individuals who are directly engaged in securities transactions and investment consultancy;
• public companies and other issuers of securities according to the Law on Public Offering of Securities and the Markets in Financial Instruments Act;
• credit rating agencies.

The FSC also exercises control over the public companies and issuers; it issues and withdraws licenses; gives confirmations and approvals; inspects the operation of banks in connection with their activities as investment intermediaries and custodian banks; exchanges the information indispensable for its activities with the Bulgarian National Bank, other state institutions and bodies, bodies of local self-government and administration, as well as with non-governmental organizations related to the securities market. In the following chapter we will elaborate further on the structure of the Commission.

2.2 The Bulgarian Stock Exchange (BSE-Sofia)

BSE-SOFIA is the only functioning stock exchange in Bulgaria. It is a regulated market within the meaning of MiFID. It has the authority to regulate its market, listed companies and products and its members (banks and investment intermediaries as well as asset management companies). Every change in its structure and rules however has to be approved by the FSC. The structure of the BSE will be explained in detail in the following chapters.

2.3 Central Depository JSC

The Central Depository JSC is the institution that provides the settlement of corporate securities in book-entry form. Controlled by the FSC, The Bulgarian National Bank (BNB) and the Ministry of Finance, The Central Depository organizes and maintains the systems for:

• the dematerialized shares book-entry registration;
• maintenance of the shareholders’ registry of companies traded;
• maintenance of the securities traded registry;
• immobilization of share certificates that are a matter of public trading;

We will discuss the Central Depository in further detail in the following chapters.

2.4 Bulgarian National Bank (BNB)

BNB is the regulator and supervisory authority for the banking sector. It regulates the activities of deposit taking banks, development and investment banks, foreign bank branches in Bulgaria, audit firms, rating agencies, financial holding companies, leasing, and consumer finance companies. As every European Central Bank, its main responsibilities are:

• to ensure the safety and stability of the banks and protect private deposits;
• to protect the economy and society from problems such as bank panic, bank defaulting and the loss of trust in the banking system;
• to provide an effective and competitive financial system;
• to protect creditors from faulty borrower actions;

2.5 Bulgarian Association of the Licensed Investment Firms (BALIF)
BALIF is the association of legal persons which have been licensed to perform activity as investment intermediaries (securities brokers/dealers) in accordance with the Market in Financial Instruments Act (MiFIA). The main objectives of the Association are:

- to protect the professional and economic interests of its members;
- to explain and promote the fundamental principles of the investment process in Bulgaria and the emerging stock market;
- to make proposals to the relevant state authorities for the introduction of new regulations and amendments to the legislation regulating the investment process and the stock market;
- to contribute to the regulation of professional and ethical relations between the licensed investment intermediaries for the purpose of promoting the good reputation of the Association and its members;
- to contribute to the enhancement of the professional qualification of its members;
- to contribute to the generation and dissemination of information related to the problems of the investment process and the stock market.

2.6 Bulgarian Association of Asset Management Companies (BAAMC)

BAAMC is an association of local legal entities which have been licensed under the Bulgarian law to operate as Management Companies within the meaning of the Law on the Activity of Collective Investment Schemes and Other Undertakings for Collective Investment (LACISOUCI). A member of the Association may also be a foreign Management Company from the EU member states which operates in Bulgaria. The main objectives of the Association are:

- to assist, promote and popularize the activities of the Management Companies in Bulgaria;
- to focus and coordinate the efforts of its members and to defend their professional interests;
- to establish among its members high standards of professionalism in their operations.

2.7 Association of Supplementary Pension Security Companies (BASPSC)

BASPSC was founded on 12 September 1997 on the initiative of the first voluntary pension funds established in Bulgaria in 1994-1995. Throughout its 15-year long history the BASPSC has worked consistently for the achievement of the objectives stated from the very beginning of its existence – to unite, to support, to defend, to coordinate and to represent the interests of its members in this country and beyond its boundaries; to coordinate and unite the efforts of its members in all issues of common interest regarding the supplementary pension security sector. Throughout all these years and at present the BASPSC has been one of the institutions forming the basis of the Bulgarian pension reform, namely for the creation, recognition and materialization of its main principles, philosophy and legislation.

2.8 Association of the Banks in Bulgaria (ABB)

ABB is a self-regulatory organization. Most of the Bulgarian commercial banks are members of the association. ABB determines professional principles and sets standards for its members, aids the communication between them and protects their interests.
2.9 Association of the Insurance Companies in Bulgaria (ABIC)

ABIC is a self-regulatory organization. Linking most of the Insurance Companies in Bulgaria, the Association aims to set the standards and professional principles in the industry, facilitate the communication between the insurance companies and protect their interests.

2.10 Advisory Council on Financial Stability (ACFS)

ACFS is an advisory authority, whose core activity is to facilitate the effective partnership between the Ministry of Finance, the Financial Supervision Commission (FSC) and the Bulgarian National Bank (BNB) in view of achieving financial stability. The members of the ACFS are the Minister of Finance, the Chairman of the FSC and the Governor of BNB, but should the need arise, invitations for the meetings of the Council can be sent to other relevant authorities. The meetings are used to:

- analyze the current state of the financial system and the capital markets and to ensure that council members are informed of the current trends and events that may affect the Bulgarian financial system;
- oversee and analyze the systematic risks for the stability of the financial system and discuss courses of action whenever there is a financial crisis;
- coordinate the activities in line with council members’ authority whenever there is an immediate threat or a crisis in the financial system and capital markets;
- discuss measures for the improvement of the financial regulatory framework and its practical application; facilitate the improvement of the regulation of the capital market, listed companies and member intermediaries.

3. REGULATORY FRAMEWORK OF THE CAPITAL MARKET

In 1991, the Commerce Act (CA) was enacted and with it the Bulgarian Capital Market was re-established, and in 1997 the BSE-Sofia was created. In 2000, The Public Offering of Securities Act superseded the Securities, Stock Exchanges and Investment Companies Act (enacted in 1995) and in 2003 with the Financial Supervision Commission Act the Financial Supervision Commission was established.

**NOTE:** The full versions of the main capital market regulations are available in English on the FSC (www.fsc.bg) and BSE (www.bse-sofia.bg) websites.

Brief descriptions of capital markets regulations are provided below.

3.1 Commerce Act

The Commerce act is one of main founding and regulating factors of the Bulgarian Capital Market. Effectively with the Act’s enactment in 1991 the capital market renewed its existence after years of planned economy. In most cases the Act is used in a subsidiary fashion, helping settle disputed questions on the special laws that oversee the financial relationships in the capital market (for example the Public Offering of Securities Act).

3.1.1 The Public Offering of Securities Act
Enacted in 1999, in force since the beginning of 2000, the Public Offering of Securities Act superseded the Securities, Stock Exchanges and Investment Companies Act and became the standard rulebook regulating and supervising securities operations and investor activity. This Act regulates (Article 1 of the POSA):

- the public offering of, the issuing and disposition of dematerialized securities, including outside the cases of public offering, as well as the restrictions regarding the disposition of securities issued through non-public offering;
- the operation of the Central Depository;
- the Investor Compensation Fund;
- the requirements applicable to the public companies and to the other issuers of securities;
- the requirements to the persons managing and controlling the persons covered under Items a) and b), as well as to the persons holding 10 or more than 10 per cent of the votes in the General Meeting of the persons covered under Items a) and b), and
- the state supervision to ensure compliance with this Act.

3.1.2 Markets in Financial Instruments Act

The Markets in Financial Instruments Act was enacted in 2007 with its primary aim being to create conditions for the development of a transparent, open and efficient market in financial instruments, to ensure the protection of investors in them and to uphold the stability and public confidence in the market of financial instruments.

The Act regulates the activity of investment intermediaries and regulated markets in financial instruments. Subject to the Act’s regulations are all securities, money market instruments, units in collective investment undertakings, options, futures, swaps, forward rate agreements and any other derivative contracts relating to securities, currencies, commodities, credit risk, climatic variables, other official economic statistics, etc.

3.1.3 Other Relevant Legislation

- Privatization and Post-Privatization Act;
- Privatization Funds Act (not repealed but not in use);
- Financial Supervision Commission Act;
- Ordinances of the FSC;
- Measures against Market Abuse with Financial Instruments Act;
- Law on the Activity of Collective Investment Schemes and Other Undertakings for Collective Investment;
- Special Investment Purposes Companies Act;
- Mortgage Bonds Act;
- Law on the Supplementary Supervision of Financial Conglomerates;
- Rules and Regulations of the BSE-Sofia;
- Rules of the Central Depository of Securities et al.

4. TAXATION

In general, the Corporate Income Tax Act and the Income Taxes on Natural Persons Act govern the taxation rules and procedures in Bulgaria.
The *Income Taxes on Natural Persons Act* lays down the rules on taxation of the income of individuals, residents, non-residents, sole-traders and the income of certain corporations. The tax procedures apply equally to the national and foreign investors if they are natural persons. Bulgarian residents are taxed on their worldwide income. Non-resident individuals are taxed with regard to their Bulgarian-source income. Effective since January 1, 2008, a 10% flat tax on personal income has been introduced.

Dividends and liquidation proceeds payable by resident entities to both resident and foreign natural persons are subject to a 5% final withholding tax at the source. When a foreign individual is treated for tax purposes as a resident of a member-state of the European Union or in another country - member of the European economic area, then certain incomes are not subject to tax (Art. 37 (7) of the new *Income Taxes on Natural Persons Act*).

As far as the corporate income tax (profit tax) is concerned, the new *Corporate Income Tax Act*, effective since 2007, reduced the profit tax rate to 10%.

The Bulgarian-source income of foreign entities, realized without a business seat in the country, is subject to a 10% final withholding tax at the source. If the foreign entities have a kind of resident representation, then the respective resident entity is subject to taxation (Art. 200 (2) with reference to Art. 195 of the new *Corporate Income Tax Act*).

Dividends and liquidation proceeds payable by residents to foreign legal entities are subject to a 5% final withholding tax at the source (Art. 200 (1) with reference to Art. 194 of the new *Corporate Income Tax Act*).

Capital gains from transactions with shares in public companies and traded rights in such shares realized on a regulated Bulgarian stock market are not subject to withholding tax. Capital gains from transactions in units of collective investment schemes (Bulgarian and of UCITS registered in EU member states and offered in Bulgaria) are also tax exempt. CIS are tax exempt and do not pay corporate income taxes. Legal entities accordingly can adjust their taxable base by adding losses to and subtracting capital gains from it.

Withholding tax rates could differ depending on the provisions in *Double Taxation Agreements* between Bulgaria and other countries.

Value Added Tax: 20%

*Foreign Exchange Act* effective since 2007:

Art. 1 This Act shall regulate:

- Transactions and payments between local and foreign persons;
- Trans-border transfers and payments;
- Transactions with foreign currency;
- Transactions with precious metals and gemstones by occupation, the export, import and processing thereof;
- Export and import of Bulgarian levs (BGN ) and foreign currency in cash;
- Collection, maintenance and provision of statistical information on the country's balance of payments;
- The exercise of currency control.

Freedom to Carry out Transactions, Actions and Payments
Art. 2 (1) All actions, transactions and payments under Art. 1, items 1 - 5 shall be conducted freely inasmuch as this Act does not provide otherwise.

Export and Import of Levs (BGN) and Foreign Currency in Cash

Art. 11 (1) Local and foreign natural persons may import and export unlimited amounts of levs, foreign currency in cash and bearer payment instruments while observing the requirements established under this Act.

Exchange Rates of Foreign Currencies in Respect to the Lev

Art. 12 (1) The Bulgarian National Bank shall announce daily exchange rates in respect to the lev of certain foreign currencies chosen at its discretion that shall be used for accounting and statistical purposes.

5. CAPITAL MARKET INSTITUTIONS

5.1 FINANCIAL SUPERVISION COMMISSION

The Financial Supervision Commission is the main regulatory and supervisory authority in charge of the securities market and investors. It was established on March 1st, 2003 under the Financial Supervision Commission Act. The FSC is an institution that is independent from the executive authority and reports its activity to the National Assembly of the Republic of Bulgaria. The Commission is a specialized government body for regulation and control over different segments of the financial system – capital market, insurance market, health insurance market, and pension insurance market.

The primary mission of the institution is to assist through legal, administrative and informative means for the maintenance of stability and transparency on the non-banking financial sector, and to ensure the protection of the consumers of financial services and products.

5.1.1 Organizational Structure

The Financial Supervision Commission is a budget-supported legal person and its seat is located in Sofia. The commission is a collective body, consisting of five members – a chairperson, three deputy chairpersons and another member. The members are elected by the National Assembly and their term of office is six years. The powers of the chairperson are determined as coordinating, organizational, supervisory and representative. National law assigns to him/her strictly administrative functions that are related to the management and control of the FSC as an administrative unit. The authorities of the deputy chairpersons, who supervise the three main sectors - investment, insurance and social insurance, have been tailored in accordance with the specific areas. They have been given the legal authority for operational independence regarding the decision-making in the respective field. The other member of FSC is generally responsible for consumer protection.

5.1.2 Functions

The regulated capital market participants (regulated markets, investment intermediaries and management companies) may carry out activities on Bulgarian territory on the basis of a license issued by the Financial Supervision Commission. Also, investment intermediaries and management companies licensed in another EU Member State are allowed to operate on Bulgarian territory either by (a) establishing a branch or (b) directly, under the terms and
conditions of the freedom of services, subject to prior notification to the FSC. Collective investment schemes of the UCITS variety can also be freely marketed throughout the EU, based on the European passport they are entitled to.

The law treats local and foreign ownership of investment intermediaries on an equal footing. Minority ownership in the equity of investment intermediaries of less than 10% is not subject to disclosure. The direct or indirect acquisition of an ownership stake, which is equal to or in excess of 10% of the equity or voting stock of an investment intermediary or which entitles the acquirer to exercise substantial influence over the management of the investment intermediary requires the prior notification of the FSC. The same applies for any subsequent acquisition or transfer resulting in reaching or passing the thresholds of one fifth, one third or one half of the equity or voting stock, as well as any acquisition in result of which the investment intermediary becomes a subsidiary of the acquirer.

The FSC’s activities can be classified into four main groups:

- Regulatory activity;
- Licensing regime;
- Supervision;
- Sanctions.

➢ Regulatory activity

The Commission's regulatory activity includes drafting and adoption of regulations and instructions provided for in the legislation, issuance of guidelines and instructions regarding the implementation and interpretation of the codes and laws. The Commission adopts secondary legislative acts (ordinances) concerning laws’ implementation in relation to the carrying out of financial supervision. The regulation of the market participants' activity is in conformity with the European legislation, rules and practices. Usually, the legislative amendments are necessitated by changes that have occurred in the financial system itself, the introduction of new products and technologies or in case imperfections of the effective regulatory framework are established.

➢ Licensing regime

In its licensing activity the Commission is guided by the principle of impartiality and implementation of a unified approach and criteria with respect to all applicants. The Commission examines the documents that have been attached to the applications for permit issuance or amendment of one that has already been granted in view of their compliance with the regulatory requirements. It is being established whether all the required documents and data have been provided and whether the legal limitations to certain licensing proceedings have been complied with. For example:

- Capital amount and structure;
- Origin of the resources with which the share contributions have been paid;
- Existence (lack of) relatedness between individuals and/or legal entities in accordance with the legal provisions;
• Requirements applicable to the members of management and supervisory bodies and other special requirements.

- Supervision
The consolidated financial supervision over the supervised entities' activity monitors compliance with the legal requirements, the companies' financial status and the reliability of information that they provide.

The Commission's supervisory activity is being carried out through off-site supervision and on-site examinations of the licensed market participants' activity.

The purpose of FSC's controlling activity is prevention and termination of legal violations in view of ensuring protection of the interests of investors, insurers and the insured persons.

- Sanctions

Upon establishment of offences on the supervised entities' side, the Commission imposes coercive administrative measures. They include the issuing of recommendations to undertake specific actions, fines and property sanctions.

5.2 Bulgarian Stock Exchange (BSE-Sofia)

The Bulgarian Stock Exchange was officially licensed by the State Securities and Exchange Commission to operate as a stock exchange on October 9, 1997 and is currently the only functioning stock exchange in Bulgaria. The scope of the Exchange activity includes organizing the trading in securities and other financial instruments, the operation and maintenance of information systems for trading in securities, and the establishment and maintenance of a clearing system guaranteeing the obligations assumed under securities transactions executed on the Exchange. The State takes part in the capital of the Exchange through an in-kind contribution. The other shareholders are local and foreign legal entities and natural persons. More than two-thirds of the shareholders are financial institutions - banks, investment intermediaries and insurance companies. The Ministry of Finance is currently the majority stakeholder in the capital of the BSE.

BSE is also a public company listed on the stock exchange.

5.2.1 Organization Structure

The BSE is managed by a Board of Directors which is composed of five members. The board is elected and approved by the General Meeting of Shareholders, which is the highest decision-making body, and by the Chief Executive Officer. Each of the five board members is responsible for a different directorate – “Trading, Listing and Membership”, “Information Technologies”, “Compliance”, “Finance and Administration” and “International Relations & PR”.

The general shareholders' meeting comprises all voting shareholders. As a main collective management body of the Exchange the General meeting's competences include: amendment and supplement of the Articles of Association of BSE-Sofia; election and discharge of the
members of the Board of Directors; taking decisions on profit distribution, etc. The General meetings of BSE-Sofia are regular or extraordinary and are taking place at least once per year.

The main function of the Bulgarian Stock Exchange-Sofia is to organize a regulated market for financial instruments as a trading system that brings together third-party buyers and sellers of those financial instruments. Its mission is to participate in the creation and development of an organized capital market which guarantees an equal informational exposure to all the market participants. This way the BSE is the main financing source for Bulgarian businesses. In relation to this the BSE has the following priorities:

- Introducing new instruments, types of orders, and trading opportunities;
- Improving market infrastructure (along with other institutions);
- Improving trading conditions;
- Attracting new issuing companies and new investors;
- Corporate management;
- Improving the company’s corporate structure.

5.2.2 XETRA®

Trading on the Bulgarian Stock Exchange is implemented through Deutsche Boerse AG's electronic trading system XETRA®. XETRA® is one of the most powerful trading platforms in the world. Vienna’s stock exchange has been using XETRA® since November of 1999, and the Irish stock exchange has been using it since 2000. In addition, trading on the Eurex Bonds and Eurex Repo markets are based on the XETRA® technology. The largest stock exchange in China, the one in Shanghai, also plans incorporating XETRA® in its future trading system.

Every trade on the system is closed under the principle “delivery upon payment”, which means that the transfer of the financial instruments is directly linked to its payment. Those actions are implemented by the Central Depository.

6. Markets

A wide range of financial instruments is traded on the BSE-Sofia. Only dematerialized financial instruments whose transfer is not subject to restrictions or special conditions can be traded on a regulated market. Currently, the following financial instruments are traded on BSE-Sofia:

- Stocks;
- Corporate and municipal bonds;
- Units of UCITs;
- Compensatory Instruments;
- Subscription rights;
- Warrants.

The rules of BSE were amended in the end of 2011 for the purpose of establishing two markets (base and alternative), both of them being regulated markets within the meaning of MiFID. Both markets function from the beginning of 2012.

According to Art. 3 of Part III of the Rules of BSE the markets of BSE are as follows:
6.1 Base market of BSE

(Bulgarian Stock Exchange or BSE), in which the following market segments have been established:

- „Premium” Equities Segment;
- „Standard” Equities Segment;
- Special Investment Purpose Companies Segment;
- Bond Segment;
- UCITs Segment;
- Compensatory Instruments Segment;
- Structured Products Segment;
- Subscription Rights Segment;
- Privatization Segment;
- Initial Public Offering Segment.

6.2 Alternative Market

(Bulgarian Alternative Stock Market or BaSE), in which the following market segments have been established:

- Equities Segment;
- Special Investment Purpose Companies Segment.

Base Market of BSE, Equities segments: 120 companies in total

- „Premium” Equities Segment - 7
- „Standard” Equities Segment - 99
- Special Investment Purpose Companies Segment - 14

Alternative Market (Bulgarian Alternative Stock Market or BaSE) – 279 companies in total

- Equities Segment - 228
- Special Investment Purpose Companies Segment – 51

NOTE: Issues of securities listed as of - 16-05-2013.

The difference between the base and the alternative markets and the one between segments where same products are traded is in the requirements, which should be met before the issuers can list their securities on the respective market. There is a list of criteria with which the companies should comply for every market or segment. Those criteria are related to the basic characteristics of the issuing companies such as size, financial position, capital structure, and liquidity. Naturally, the requirements for the base markets are higher.

The Bulgarian Stock exchange offers a special privatization market, where public offerings of companies owned by the government are carried out.

The size of the market action as of 1Q 2013 was (1 EUR= 1.95583 BGN):
![Market information about the size of the market action as of 1Q 2013](image)

<table>
<thead>
<tr>
<th>Market</th>
<th>Total Values</th>
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<tbody>
<tr>
<td></td>
<td>Trades</td>
<td>Market</td>
<td>Volume</td>
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<td></td>
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<td>Premium Equities Segment</td>
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<tr>
<td>Standard Equities Segment</td>
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<td>Special Purpose Vehicles Segment</td>
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<td>Bonds Segment</td>
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<td>0</td>
</tr>
<tr>
<td>Initial Public Offering Segment</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total trading on the regulated market</td>
<td>26 150</td>
<td>242 690 602</td>
<td>1 784 260</td>
</tr>
<tr>
<td>Total OTC Market</td>
<td>484</td>
<td>130 426 953</td>
<td>1 353 539</td>
</tr>
</tbody>
</table>


Trading hours vary according to the type of the financial instrument and the type of market it is being traded on. The duration of the trading sessions for the issues traded in continuous trading is as follows (on all days of the week except Saturdays, Sundays and holidays declared by the Exchange in advance):

![Figure 2 Trading hours](image)

<table>
<thead>
<tr>
<th>Time</th>
<th>Activity</th>
</tr>
</thead>
<tbody>
<tr>
<td>09:30 - 10:00</td>
<td>Pre-trading</td>
</tr>
<tr>
<td>10.00 – 10:10</td>
<td>Opening auction</td>
</tr>
<tr>
<td>10.10 – 16.55</td>
<td>Continuous trading</td>
</tr>
<tr>
<td>16.55 – 17.00</td>
<td>Closing auction</td>
</tr>
<tr>
<td>17.00 - 17.30</td>
<td>Post-trading</td>
</tr>
</tbody>
</table>


The trading hours for the financial instruments that are traded only in auctions are as follows:

![Figure 3 Trading hours for financial instruments](image)

<table>
<thead>
<tr>
<th>Time</th>
<th>Activity</th>
</tr>
</thead>
<tbody>
<tr>
<td>09:30 - 10:00</td>
<td>Pre-trading</td>
</tr>
<tr>
<td>10:00 - 10:10</td>
<td>Opening auction</td>
</tr>
<tr>
<td>16:55 - 17:00</td>
<td>Closing auction</td>
</tr>
<tr>
<td>17:00 - 17:30</td>
<td>Post-trading</td>
</tr>
</tbody>
</table>
6.3 Indices

The Bulgarian Stock Exchange publishes four main indices that reflect market performance:

- SOFIX
- BG40
- BGTR30
- BGREIT
- CGIX

6.3.1 SOFIX

SOFIX is the first official index of the BSE. It was launched on October 20, 2000. It represents a correlation of the sum of the market capitalization of the companies within the index portfolio on the current day and the sum of the market capitalization of the same on the previous day. Market capitalizations are calculated using the free-float method. The initial value of the index was 100. In order to be included in the list a company’s shares should meet certain liquidity requirements:

- market capitalization no less than 40mln BGN;
- no less than 500 shareholders;
- yearly market turnover no less than 2mln BGN;
- yearly number of deals no less than 750.

Figure 4 Performance of Sofix index
6.3.2 BG40

BG 40 was created on February 1, 2005 and also had an initial value of 100. The index is comprised of the forty Bulgarian companies whose equity was traded the most during the past six months. Another criterion for the companies is to have a high median value for their daily turnover. In addition, any company that is included in the index should have been traded on the BSE at least three months prior to joining the index.

6.3.3 BGTR30

BGTR30 is similar to BG40 in that it is not weighted. While BG40 includes the most liquid companies, BGTR30 incorporates the thirty companies that have the highest market capitalization, trading volume, market turnover, and free-float. It was created on September 3, 2007 and it had an initial value of 1000.

6.3.4 BGREIT

BGREIT was created along with BGTR30 and it had an initial value of 100. The index is comprised exclusively of companies that specialize in the securitization of real estate and/or land, i.e. real estate investment trusts (REITs), with the greatest market value of the free-float and the highest median value of the weekly turnover during the last 6 (six) months. The method for calculation is similar to that of SOFIX.

6.3.5 CGIX
CGIX was created on September 19, 2011 with an initial value of 100. The index includes seven companies with the best corporate governance admitted to trading on the Exchange. It is based on the market capitalization of the included stocks adjusted to their free-float.

6.4 Trading Methodology and Order Types

The Bulgarian Stock Exchange allows both dealer market and auctions. In a dealer market the trading is continuous. In an auction buyers and sellers present their offers for a given time. After the allotted time is over, the price that mandates the highest trading volume is accepted.

6.4.1 Types of orders

The Bulgarian Stock Exchange allows the following types of orders:

- Market orders – orders executed at the current market price. This type of order guarantees execution, but does not fix a price;
- Limit orders – order that does not guarantee execution, but specifies a price.

In relation to validity the orders can be:

- Day orders – orders which are cancelled at the end of the day in case they have not been executed.
- Good Till Date orders – orders which are cancelled if they are not executed before a specified date. Date should not be more than 90 days away.

6.4.2 Additional order types:

- Stop Orders:
  - Stop market order – when the stop price is reached (or exceeded for stop buy orders or fallen below for stop sell orders), the stop order is automatically placed in the order book as a market order;
  - Stop limit order – when the stop price is reached (or exceeded for stop buy orders or fallen below for stop sell orders), the stop order is automatically placed in the order book as a limit order;
- Iceberg Orders – limited order valid for the current exchange trading day which specifies by its mandatory limit, its overall volume and peak volume. The peak is the visible part of an iceberg order.

6.5. Central Depository

There are two settlement houses in Bulgaria. The Bulgarian National Bank is the depository for treasuries and the Central Depository is the settlement facility for all other instruments. The Central Depository has two main functions. It acts as a central register and a transfer agent. Since most of the financial instruments in Bulgaria are not certificated and are issued in
a book-entry form, it is vital to establish and maintain a central register that tracks ownership of those instruments. Investment intermediaries have the obligation to update the register. The Central Depository provides reliability regarding the ownership of the financial assets. When a trade is carried out the investment intermediary has to report the change of ownership to the depositary electronically and settlement takes place within two days (T+2).

**Figure 5 Trading process**

![Diagram of trading process]

**Source: Own presentation**

The Bulgarian Association of Licensed Investment Firms (BALIF) is an organization of legal entities having obtained permission to perform activity as investment intermediaries. The Association was established with its main objective being the protection of the interests of the professional guild and gaining influence in society as an active partner of the institutions related to the development of the capital market.
The fundamental concept underlying the Association’s activities is the joining of efforts for the purpose of sustainable application of the principles of equitable and fair trade, the high standards of professional ethics, protection of the investors’ interests.

The ambition of BALIF as the only organization representing the investment intermediaries is to have an active position with respect to the formation of the legal and regulatory framework related to the organization and regulation of the market and the new realities following the membership of Bulgaria in the European Union.

The main priorities of BALIF are:

- Formation and improvement of the regulatory framework
- Development of the markets
- Cooperation with the Bulgarian Stock Exchange and the Central Depository
- Training and qualification of personnel including administration of exams for floor brokers and investment advisors
- Public awareness of the opportunities related to investment
- Investor education

There are around 80 investment intermediaries in Bulgaria (about 50 of them are non-banking investment firms, half of them are members of BALIF).

7. KEY INSTITUTIONS IN THE CAPITAL MARKETS

Financial Supervision Commission http://www.fsc.bg/
Bulgarian Stock Exchange-Sofia http://www.bse-sofia.bg/
The Central Depository http://www.csd-bg.bg/
Bulgarian National Bank http://www.bnb.bg/
Bulg. Association of the Licensed Investment Firms http://www.balip.com/
Bulg. Association of Asset Management Companies http://www.baud.bg/
Association of the Banks in Bulgaria http://www.abanksbg.com/
BALIF MEMBERS

1. “Aval In” JSC www.aval-in.com
2. “Adamant Capital Partners” JSC www.acp.bg
5. “Beta Corp” JSC www.beta-corp.com
8. “Varchev Finance” LLC www.varchev.com
15. “First Financial Brokerage House” LLC www.ffbh.bg
16. “Positiva” JSC www.pozitiva.biz
22. “Focal Point Investment” JSC www.focalpoint.bg
23. Central Cooperative Bank www.ccbank.bg
24. Credit Agricole Bulgaria http://www.credit-agricole.bg