

**INVITATION FOR
INDEPENDENT EXTERNAL REVIEWERS
For the Review of the Assets in the Bulgarian Pension Funds Sector**

The FSC invites applicants to submit proposals regarding the tasks prescribed in this invitation. Applicants will be selected by FSC based on the selection criteria specified in 10. Applicants shall submit proposals by 31 March 2016.

1. Background

In the framework of the enhanced economic policies coordination in the European Union (EU), the Council of Ministers adopted in May 2015 the Update of the National Reform Program (NRP) which presents the Government's policy commitments including on the non-banking financial sector. In addition on August 14, 2015 in State Gazette 62 was promulgated the Law on Recovery and Resolution of Credit Institutions and Investment Firms (LRRCIIF). Paragraph 10 of the Transitional and Final provisions of the said Law provides for the tasks which the Financial Supervision Commission (FSC) must accomplish..

Accordingly, the FSC will take actions towards strengthening the supervision and legislation of the pension funds and insurance sectors (section 2.2 of the NRP). Among other measures on the policy area, the NRP foresees to perform with independent third party support a review of the assets of the pension funds, including review of the risks of the pension funds in accordance with the provisions of the applicable legal framework and further identifying main risks not captured or not fully captured by the legal framework.

The reviews of the assets of the pension funds will be carried out by independent external parties (independent external reviewers) with high professional reputation and international experience in compliance with the current legal rules .

The review will be overseen by a Steering Committee (SC) that includes representatives from the FSC, the Ministry of Finance (Observer), the Bulgarian National Bank (Observer) and from international organizations - European Commission (Observer) and European Insurance and Occupational Pensions Authority (EIOPA; member of the SC).

The FSC has selected a consultant, hereinafter referred as Project Manager (PM) that will ensure a harmonised application of the review's methodology by the Independent external reviewers performing the reviews as well as a similar treatment of the pension insurance companies and the pension funds they manage by the respective Independent external reviewers.

The review covers the universal, professional and voluntary pension funds in Bulgaria. It will not cover the voluntary pension funds with occupational schemes. The reviews are expected to commence at July 15, 2016 and shall be concluded until October 15, 2016. The cut-off/reference date for the reviews is June 30, 2016.

2. Main objectives of the review of the assets of the pension funds

The main objectives of the review of the assets of the pension funds are:

- a) to verify whether the assets of the pension funds kept by the custodian banks are present;
- b) to perform a valuation of the assets in the pension funds' portfolios in accordance with the provisions of Ordinance No. 9 of the FSC of 19.11.2003 on the manner and procedure for evaluation of the assets and liabilities of supplementary pension insurance funds and of the

pension insurance company, of the value of net assets of the fund, for calculation and declaration of the value of one unit and for the requirements for maintaining the individual accounts (prom. SG, issue 109 of 16.12.2003, effective 1.07.2004, amended and supplemented in issue 34 of 27.04.2004, issue 57 of 12.07.2005, issue 32 of 18.04.2006, supplemented in issue. 86 of 24.10.2006, supplemented in issue 39 of 15.05.2007, effective 19.05.2007, issue 28 of 14.04.2009, issue 74 of 15.09.2009, effective 19.09.2009, amended in issue 107 of 13.12.2013, effective 1.01.2014);

- c) to assess the appropriateness of the recognition and valuation principles of the assets in the pension funds' portfolios in accordance with the provisions of the applicable legal framework with a special focus on the impact of operations and transactions with natural or legal persons with close links to the funds and the companies managing the funds checking whether there are investments of the pension funds in securities, issued by parties related to the pension insurance company managing the fund within the meaning of Paragraph 1, sub-section 2, item 3 of the Supplementary provisions of the Social Insurance Code;
- d) to review the risks of the pension funds in accordance with the provisions of the applicable legal framework and further identifying main risks not captured or not fully captured by the legal framework;
- e) to provide insight and raise awareness of the pension funds' sector risks and vulnerabilities including potential contagions to the rest of the financial sector and the real economy.

Further information on the review of the assets of the pension funds is provided in the public procurement adopted with Decision № 818-ОП/16.10.2015 of the Financial Supervision Commission's Chairman.

3. Selection process of independent external reviewers

The FSC shall approve a list of independent external reviewers. The criteria for selecting independent external reviewers are described in 10.

Each pension insurance company shall select for the participating pension funds it manages an independent external reviewer from that list who will conduct the review in line with the methodology developed by the PM and approved by the FSC.

The choice of the pension insurance companies shall not be binding on the FSC/ the Deputy Chair of the FSC, in charge of the Social Insurance Supervision Division.

The FSC/ the Deputy Chair of the FSC, in charge of the Social Insurance Supervision Division, shall appoint in compliance with the applicable legal framework the independent external reviewer.

All independent external reviewers' fees entailed by the review will be paid by the respective pension insurance companies.

The review of the assets of the pension funds will start after the issuance of the relevant acts of the FSC/ the Deputy Chairperson of the FSC, in charge of the Social Insurance Supervision Division, in compliance with the Bulgarian legislation.

The pension insurance companies will provide the independent external reviewer with all the necessary information. The independent external reviewer will provide the PM and SC with all the necessary information.

4. Methodological Guidance

The independent external reviewer shall consider the applicable legal framework and the applicable International Standards on Auditing (ISA) for the performance of the review of the financial information.

The assessment of the assets will be performed in accordance with the provisions of Ordinance No. 9. An assessment will also be required of risks not captured or not fully captured by the legal framework.

The PM will develop in coordination with the SC a methodological guidance aiming a harmonised application of methodologies by the independent external reviewers as well as a similar treatment of the pension insurance companies and the pension funds by the respective independent external reviewers. The independent external reviewers will have to comply with the working procedures established in the methodological guidance.

5. Scope of the work

The review covers all the universal, professional and voluntary pension funds in Bulgaria. It does not cover the voluntary pension funds with occupational schemes.

The cut-off/reference date for the reviews is June 30, 2016.

The review extends to all material assets on the basis of sampling large enough and sufficiently representative to allow for a robust analysis. The independent external reviewers will be required to perform the following tasks:

- Reconciliation - independent external reviewers will be required to verify whether the assets kept by the custodian banks are present;
- Reliability, quality, sufficiency and relevance of data - independent external reviewers will be required to perform data checks on the information provided to the Independent external reviewer by the participating pension insurance company. Impact shall be quantified;
- Valuation and recognition - independent external reviewers will be required to perform an assessment of the assets' recognition according to the international accounting standards and their valuation according to the provisions of Ordinance No. 9. ;
- Accounting policies - independent external reviewers will be required to provide an opinion about the appropriateness of the accounting policies and methodologies used by the participating pension insurance company. Impact shall be quantified;
- Related parties - independent external reviewers will be required to assess the impact of operations and transactions with natural or legal persons with close links to the funds and the companies managing the funds checking whether there are investments of the pension funds in securities, issued by parties related to the pension insurance company managing the fund within the meaning of Paragraph 1, sub-section 2, item 3 of the Supplementary provisions of the Social Insurance Code;
- System of governance - independent external reviewers will be required to give an opinion about the appropriateness of the system of governance including the internal control mechanisms in place and its compliance with the legal framework;

- Risks - independent external reviewers will be required to review the risks of the pension funds in accordance with the provisions of the applicable legal framework and further identifying main risks not captured or not fully captured by the legal framework;
- Reports- see 8.

Independent external reviewers will be required to provide the details on the methodologies and assumptions used in performing the exercise.

The review will be performed at the premises of the pension insurance companies.

The independent external reviewer shall take the necessary steps prior to the start of the fieldwork to ensure that relevant supporting documents as well as key staff will be available in the respective pension insurance company during the review.

The independent external reviewer will inform the PM and the SC as soon as possible about any limitations in the scope of work it may find prior to or during the review of the assets. The independent external reviewer will report any attempt by the pension insurance companies to restrict the scope of the review, or any lack of co-operation on the part of the pension insurance company. The independent external reviewer will consult the PM and SC on what action may be required, whether or how the review can be continued and whether adjustments in the review scope or the timetable are necessary without impacting the deadline for the completion of the entire exercise.

The independent external reviewer shall exercise due professional care and judgment and determine the nature, timing and extent of review procedures to fit the objectives, scope and context of the review.

6. Duration

The independent external reviewers' reviews shall take place between 15 July-15 October 2016 (3 months). The independent external reviewers shall finalize their work with the issuing of the final reports (15 October 2016).

The date of issuance of the act of the FSC/ the Deputy Chairperson in charge of Social Insurance Supervision Division is the official starting date of review.

The independent external reviewers should contact the respective pension insurance company as soon as possible to agree a date to start the fieldwork but not before the review has been formally announced by the FSC. This should not be later than 7 calendar days from the starting date of review.

7. Supervision

The independent external reviewer will be supervised by the PM in consultation with the SC. The PM will make available a Q&A tool.

8. Reports and terms

The type of report to be provided is a proposed Agreed Upon Procedures format in accordance with ISRS 4400. The objective of the particular engagement is for the external independent reviewers to carry out procedures of an audit nature as will be described at the methodology that will be provided and to report on factual findings. The findings will refer to the financial information of pension funds' assets as well as to non-financial information relating to applicable regulatory framework and of the risks of the sector.

The report shall contain the items and statement as described at ISRS 4400 including

- Identification of specific financial and non-financial information to which the agreed-upon procedures have been applied
- A statement that the procedures performed were those agreed upon with the recipient
- A listing of the specific procedures performed
- A description of the external independent reviewer's factual findings including sufficient details of errors and exceptions found

The methodology shall include a specific template that requests the external independent reviewers to include comments, conclusions as well as judgement over the different findings and the necessary quantitative assessments.

8.1 Blue print and progress reports

At the beginning of the reviews each independent external reviewer will produce a blueprint which will describe the work plan proposed for performing the review including the detailed procedures and timing. It shall include a detailed indication of the estimated number of hours needed to complete each stage of the review.

The blueprints will be submitted to the PM and SC after 14 days from the starting date of the review. Each independent external reviewer will participate at a preparatory meeting with the PM and the SC to provide an overview of the proposed work.

Independent external reviewers will submit twice a month to the PM and SC a progress report. This shall clearly identify the implementation stage, relevant findings and concerns.

Independent external reviewers may at any time during the review draw up a complementary letter if it considers that the PM and the SC should be informed about facts and issues that are or may be urgent or of particular interest and importance to the successful completion of the review.

Progress reports will be drafted in English.

Independent external reviewers will need to be available to discuss with the PM and SC the interim results during the monthly meetings of the SC and during conference calls.

8.2 Final reports

The independent external reviewer should, considering the relevant ISAs, prepare documentation for the review and obtain sufficient appropriate evidence to support review's findings and to draw reasonable conclusions on which to base the review opinion.

Independent external reviewers will draft a specific and separate Review report for each fund. Further guidance on the structure of the report will be provided by the PM in consultation with the SC.

Independent external reviewers will submit to the PM and SC the final reports until 15 October 2016. The final reports will be issued in both Bulgarian and English language.

9. Confidentiality

Independent external reviewers shall hold in confidence any confidential information obtained from the other party during the course of the reviews, including the outputs and deliverables. Furthermore, independent external reviewers must not make any future use of the information obtained from the other party during the course of the reviews unless there is a legal or professional obligation to do so.

The information provided by the independent external reviewers will be shared with the observers in the SC without violation of Art 24-25 of the Financial Supervision Commission Act regarding the professional secrecy.

10. Requirements for independent external reviewers

10.1 Eligibility criteria

In order to be included in the list, independent external reviewers must comply with the following requirements:

10.1.1. The firm must not be the Consultant (Project Manager) for the review and must not belong to the group to which belongs the Consultant (Project Manager);

10.1.2. The firm must have minimum 5 years international experience in at least three EU member states in evaluating¹ and/or auditing pension companies/funds and/or assets management companies and/or banks and/or insurance/reinsurance undertakings with sizable assets² and/or international experience in carrying out Asset Quality Reviews (AQR) in the banking sector or Balance Sheet Reviews (BSR) in the financial sector, commissioned by governments, EU or national authorities or central banks;

10.1.3. The firm's team must not consist of members that have violated the Insurance Code, the Law on the Independent Financial Audit, or the Law on Accounting during the last 5 years.

10.1.4. The firm should demonstrate that it has at least one team with theoretical knowledge and a minimum 5 years practical experience in the financial sector and in evaluating and/or auditing pension companies/funds and/or asset management companies and/or banks and/or insurance/reinsurance undertakings with sizable assets, which is compliant to the requirement of point 10.2.1.

¹ Evaluation means activities relating to verification of the reliability and adequacy of the assessment of the value of assets or liabilities of a financial institution, including financial instruments, loan or securities portfolios, capital instruments, attracted resources and accepted collateral.

² Assets which are measurable to the pension funds assets

10.2 Appointment of independent external reviewers for each particular fund

10.2.1. For the review of each particular fund, the firm should provide separate team, while being free to use the same team or specific members of that team for different funds under review, provided that the workload for the team members is not unreasonably high. The team required for each fund will be composed of as minimum 1 manager (partner/director/principal) with expertise in the review of assets/balance sheet reviews with at least 5 years of professional experience as a professional auditor or accountant in public audit practice who has the ultimate responsibility for the review, 1 Expert / Analyst who is a holder of the right to use the Chartered Financial Analyst designation or other internationally recognized professional qualification in the area of finance and 3 experts with at least 3 years' practical experience in auditing or evaluation pension companies/funds and/or assets management companies and/or banks and/or insurance/reinsurance undertakings with sizable assets

10.2.2. In order to conclude a contract with a specific pension insurance company for the review of the assets of a pension fund managed by it, the firm must further comply with the following requirements:

1. not to perform statutory auditing activities, consulting or other kind of activities on the pension insurance company, on the pension funds it manages, on the companies controlling directly or indirectly the pension insurance company or on the companies in Bulgaria which are related to the companies controlling the pension insurance company or to the pension insurance company within the meaning of paragraph 1, subsection 2, item 3 of the Social Insurance Code, when those consulting or other activities provide a partial or full evaluation of the financial standing of the respective legal entity;
2. not to have performed in the last 5 years preceding the review statutory auditing activities, consulting or other kind of activities on the pension insurance company, on the pension funds it manages, on the companies controlling directly or indirectly the pension insurance company or on the companies in Bulgaria which are related to the companies controlling the pension insurance company or to the pension insurance company within the meaning of paragraph 1, subsection 2, item 3 of the Social Insurance Code, when those consulting or other activities provided a partial or full evaluation of the financial standing of the respective legal entity;
3. the firm or any of its team members not to have potential conflicts of interest.

In the course of the review of the assets the independent external reviewer will use at least 1 independent valuer (either employee of the Independent external reviewer or separately hired) with the necessary competences according to the independent valuers Act. The independent valuer must not have carried out valuation of the assets of the respective pension funds for the last 5 years and must not have other potential conflicts of interest.

The reviews shall be signed or co-signed by an international partner (i.e. based outside Bulgaria).

10.3 Elements to be sent to FSC and selection

The selection will be based on the evaluation of compliance with the eligibility criteria. In order to certify compliance with the set criteria in point 10.1, the following elements to be sent by the applicants:

1. A declaration by the legal representatives of the firm for compliance with the requirements with points 10.1.1 and 10.1.4 of the eligibility criteria.
2. A detailed description in writing, signed by the legal representatives of the firm, of the experience of the firm meeting the requirements of point 10.1.2, together with a declaration signed by the legal representatives of the firm for the correctness of the information.
3. CVs, signed by the respective person and by at least one legal representative of the firm, presenting details on the qualification and experience of the team complying with the requirements of 10.1.4.

A firm, which has submitted a proposal with regard to the previous invitation of the FSC for the same tasks and which wishes to participate in the selection pursuant to the present invitation, must notify the FSC within the deadline for submission of proposals, set in the present invitation, of its wish to participate in the selection and does not have to submit the documents set in point 10.3, which the FSC has at its disposal.

10.4. Elements to be provided to the FSC for the appointment of independent external reviewers for each particular fund

1. The independent external reviewer shall provide the FSC with CV's of the partner or other person(s) in the firm who is responsible for the review and for signing the report together with the CVs of all team members. CVs shall include accurate information and appropriate details on the type of reviews carried out by the staff indicating capability and capacity to undertake the review as well as details on relevant specific experience. Each CV should be signed by the respective person and by at least one legal representative of the firm.
2. detailed planning of how the applicant proposes to undertake the reviews;
3. details of applicable terms and conditions;
4. how confidentiality will be safeguarded and conflicts of interest will be prevented;
5. A declaration by the legal representatives of the firm for compliance with the requirements set in 10.2 and in 10.1.3.

Furthermore, applicants are required to send a description of the pricing methodology to be used to set the price of the reviews. All elements should be sent to FSC in both English and Bulgarian language.

Annex 1**Pension Funds participating in the Review**

No.	PENSION FUND
1.	UNIVERSAL PENSION FUND DOVERIE
2.	PROFESSIONAL PENSION FUND DOVERIE
3.	VOLUNTARY PENSION FUND DOVERIE
4.	UNIVERSAL PENSION FUND DSK - RODINA
5.	PROFESSIONAL PENSION FUND DSK - RODINA
6.	VOLUNTARY PENSION FUND DSK - RODINA
7.	UNIVERSAL PENSION FUND SAGLASSIE
8.	PROFESSIONAL PENSION FUND SAGLASSIE
9.	VOLUNTARY PENSION FUND SAGLASSIE
10.	NN UNIVERSAL PENSION FUND
11.	NN PROFESSIONAL PENSION FUND
12.	NN VOLUNTARY PENSION FUND
13.	UNIVERSAL PENSION FUND FUTURE
14.	PROFESSIONAL PENSION FUND FUTURE
15.	VOLUNTARY PENSION FUND FUTURE
16.	UNIVERSAL PENSION FUND PENSION ASSURANCE INSTITUTE
17.	PROFESSIONAL PENSION FUND PENSION ASSURANCE INSTITUTE
18.	VOLUNTARY PENSION FUND PENSION ASSURANCE INSTITUTE

19.	UNIVERSAL PENSION FUND CCB – SILA
20.	PROFESSIONAL PENSION FUND CCB – SILA
21.	VOLUNTARY PENSION FUND CCB – SILA
22.	ALLIANZ BULGARIA MANDATORY UNIVERSAL PENSION FUND
23.	ALLIANZ BULGARIA MANDATORY PROFESSIONAL PENSION FUND
24.	ALLIANZ BULGARIA VOLUNTARY PENSION FUND
25.	UNIVERSAL PENSION FUND TOPLINA
26.	PROFESSIONAL PENSION FUND TOPLINA
27.	VOLUNTARY PENSION FUND TOPLINA