



FINANCIAL SUPERVISION COMMISSION

**ANNUAL ACTIVITY
REPORT
FOR 2019**

List of abbreviations used

ABI – Association of Bulgarian Insurers
ABIRD – Association of Bulgarian Investor Relation Directors
SPIC – Special Purpose Investment Company
BICA – Bulgarian Industrial Capital Association
AIF – Alternative Investment Fund
APC – Administrative Procedure Code
AEAV – Act of Established Administrative Violations
AEPDS – Act of Established Public Debts to the State
BASPSC – Bulgarian Association of Supplementary Pension Security Companies
BALIF – Bulgarian Association of Licensed Investment Firms
BAAMC – Bulgarian Association of Asset Management Companies
GDP – Gross Domestic Product
BNB – Bulgarian National Bank
BIA – Bulgarian Industrial Association
BSE – Bulgarian Stock Exchange
GF – Guarantee Fund
SANS – State Agency for National Security
VPF – Voluntary Pension Fund
VPFOS – Voluntary Pension Fund with Occupational Schemes
CF – Contractual Fund
GS – Government Securities
EEA – European Economic Area
EC – European Commission
EC – European Community
EU – European Union
IB – Insurance Broker
IAU – Internal Audit Unit
RRCIIFA – Recovery and Resolution of Credit Institutions and Investment Firms Act
IC – Insurance Company
CISOUICIA – Collective Investment Schemes and Other Undertakings for Collective Investments Act
SPICA – Special Purpose Investment Companies Act
CIA – Credit Institutions Act
FSCA – Financial Supervision Commission Act
LMML – Law on Measures against Money Laundering
LMFT – Law on Measures against the Financing of Terrorism
LMMAFI – Law on Measures against Market Abuse with Financial Instruments
IMMAFIA – Implementation of the Measures against Market Abuse with Financial Instruments Act
POSA – Public Offering of Securities Act
MFIA – Markets in Financial Instruments Act
IC – Investment Company
IF – Investment Firm
IC – Insurance Code
CIS – Collective Investment Schemes
KRIB – Confederation of Employers and Industrialists in Bulgaria
SIC – Social Insurance Code
FSC – Financial Supervision Commission
AIFM – Alternative Investment Fund Managers
MI – Ministry of Interior
IMF – International Monetary Fund
SMEs - Small and Medium-Sized Enterprises
NRA – National Revenue Agency
SWF – Sovereign Wealth Fund
NBBMI – National Bureau of Bulgarian Motor Insurers
NCGC – National Corporate Governance Committee
PW – Penal Warrant
KID – Key Information Document
GMS – General Meeting of Shareholders
CAM – Coercive Administrative Measure
PC – Public Company
UCITS – Undertakings for Collective Investment in Transferable Securities
PIC – Pension Insurance Company
OPF – Occupational Pension Fund
MC – Management Company
UPF – Universal Pension Fund
SVPF – Supplementary Voluntary Pension Fund
SMPF – Supplementary Mandatory Pension Fund

SPF – Supplementary Pension Fund
ICF – Investor Compensation Fund
CSD – Central Securities Depository
CCPs – Central Counterparties
ESMA – European Securities and Markets Authority
EIOPA – European Insurance and Occupational Pensions Authority
EBA – European Banking Authority
ESFS – European System of Financial Supervisors
ESRB – European Systemic Risk Board
HHI – Herfindahl-Hirschman index

Useful links

Bulgarian Stock Exchange AD	www.bse-sofia.bg
Central Depository AD	www.cdad.bg
Bulgarian National Bank	www.bnb.bg
Ministry of Finance	www.minfin.bg
Council of Ministers	www.government.bg
Association of Bulgarian Insurers	www.abz.bg
National Social Security Institute	www.noi.bg
National Statistical Institute	www.nsi.bg
Privatization Agency	www.priv.government.bg
Investor Compensation Fund	www.sfund-bg.com
Guarantee Fund	www.guaranteefund.bg
Association of Bulgarian Investor Relation Directors	www.abird.info
Bulgarian Investor Relations Association	www.birsbg.org
Bulgarian Association of Supplementary Pension Security Companies	www.assoc.pension.bg
Bulgarian Association of Asset Management Companies	www.baud.bg
National Bureau of Bulgarian Motor Insurers	www.nbbaz.bg
Ministry of Labour and Social Policy	www.mlsp.government.bg
Commission for Protection of Competition	www.cpc.bg
European Commission, Directorate-General for the Internal Market	http://ec.europa.eu/internal_market/index.htm
European Parliament	www.europarl.europa.eu
Council of the European Union	www.consilium.europa.eu
European Systemic Risk Board (ESRB)	www.esrb.europa.eu
European Securities and Markets Authority (ESMA)	www.esma.europa.eu
European Insurance and Occupational Pensions Authority (EIOPA)	www.eiopa.europa.eu
European Banking Authority (EBA)	www.eba.europa.eu
International Organization of Securities Commissions (IOSCO)	www.iosco.org
International Association of Insurance Supervisors (IAIS)	www.iaisweb.org
International Organisation of Pension Supervisors (IOPS)	www.iopsweb.org
European Central Bank	www.ecb.int
International Monetary Fund	www.imf.org

CONTENTS

ADDRESS OF THE CHAIR	7
I. FSC'S ACTIVITY IN 2019	14
1. Regulatory activities	14
1.1. Amendments to the regulatory framework	14
1.2. New aspects of EU policy	21
2. Licensing activity, licensing regimes, notifications and certification.....	29
2.1. Licensing activity and licensing regimes.....	29
2.2. Notifications	42
2.3. Certification	46
3. Supervisory activity	49
3.1. Off-site supervision	49
3.2. On-site inspections	62
3.3. Law enforcement	67
3.4. Market abuse.....	72
4. Activities of the FSC for resolution of investment firms.....	75
5. Protection of the consumers of non-bank financial services	77
5.1. Access to financial information	77
5.2. Complaints and inquiries by users of non-banking financial services	81
5.3. Policy of financial literacy.....	93
6. Financial Technology Monitoring Strategy	94
7. International activity and cooperation	95
7.1. European dimension	95
7.1.1. <i>FOCUS TOPIC: The European Supervisory Authorities ESMA and EIOPA with new powers</i> <i>from 1 January 2020.</i>	96
7.2. International cooperation, projects and initiatives.....	107
7.3. Cooperation with institutions in Bulgaria.....	109
8. Institutional development of FSC	111
8.1. New points in FSC's management and structure.....	111
8.2. Human resources management	111
8.3. Development of information technologies for the needs of supervision.....	114
8.4. FSC's budgetary implementation report for 2019	115
8.5. Activity Report on the Internal Audit at FSC for 2019	117
8.6. Report of the Inspectorate.....	119
II. MARKET ANALYSIS OF THE NON-BANKING FINANCIAL SECTOR.....	121
1. External environment and economic activity	121
1.1. External environment	121
1.2. Overview of economic activity in Bulgaria.....	126
2. Overview of the non-banking financial sector in Bulgaria.....	134
2.1. Review of risks and main market trends	139
2.2. Analysis of the participants on the capital market ³⁵	141
2.2.1. Investment firms.....	142
2.2.2. Collective investment undertakings	144
2.2.3. Special Purpose Investment Companies	146
2.2.4. Public companies and bond issuers	148
2.2.5. Trading venues	151
2.3. Insurance market.....	154
2.3.1. Non-life insurance	155

2.3.2.	Life insurance.....	158
2.3.3.	Re-insurance.....	160
2.3.4.	Guarantee and compensation fund.....	161
2.4.	Social insurance market.....	161
2.4.1.	Pension insurance companies.....	162
2.4.2.	Supplementary pension funds.....	165
III.	Organisational structure of FSC.....	171

ADDRESS OF THE CHAIR

Dear Ladies and Gentlemen,

This is the 2019 Annual Activity Report of the Financial Supervision Commission (FSC).

The Financial Supervision Commission realized its activity in 2019 in conditions of stability, sustainability of the already achieved results and compared to the strategy presented to the National Assembly of the Republic of Bulgaria in March 2019. During the reporting period the focus of the Commission team was to achieve progress in development of the capital markets, to overcome the challenges in the insurance sector from the previous year, stability in the field of pension insurance, as well as changes in the legal framework regarding the non-banking financial sector. In a dynamic environment, we managed to meet many of the ambitious and also realistic goals for the development of the capital markets, the insurance sector and the pension insurance sector in Bulgaria. Also an important focus in our work was the positioning of the Commission internationally, as well as the serious improvement of communication with the public and the media.

In 2019, a Chairperson of the FSC, a Deputy Chairperson in charge of the Investment Activity Supervision Division of the FSC and a Deputy Chairperson in charge of the Insurance Activity Supervision Division of the FSC were elected. The leadership team worked with a clear strategy and vision for the development of the supervisory body with a focus on continuous improvement of administrative services, increasing the protection of the interests of investors and insured persons, providing a stable infrastructure in the financial markets. I believe that the results achieved by the Commission's team over the past year are a very good basis for its work in a time of economic turmoil on world markets.

Regarding the regulatory activity, the FSC actively participates in the inter-institutional preparation of systemically significant changes in the regulatory framework, namely: Act to Amend and Supplement the Social Insurance Code (Prom. SG, issue 12 of 08.02.2019), Act to Amend and Supplement the Markets in Financial Instruments Act (Prom. SG, issue 83 of 22.10.2019) and the Act to Amend and Supplement the Collective Investment Schemes and Other Undertakings for Collective Investments Act (Prom. SG, issue 102 of 31.12.2019). Amendments to the Insurance Code were also made.

The results of the changes in the legal framework are in several directions. In order to perform the key functions of risk management, internal audit and actuarial activity, the requirements for the management system of pension insurance companies were further developed by the Act to Amend the Social Insurance Code. Changes were also made in the investment regime of the supplementary voluntary pension funds under occupational schemes and unification of the regime of offering services for occupational pension insurance in the country and in the other EU member states with a view to applying the Principle of freedom to provide services in the EU on the basis of the so-called "Single Passport".

The key objectives of the FSC - investor protection and stability of financial markets - were achieved with the adoption of:

the Act to Amend and Supplement the Collective Investment Schemes and Other Undertakings for Collective Investments Act , which introduces a requirement for carrying out stress tests by the money market funds. The provisions related to the capital adequacy and liquidity of the management companies are also specified and the possibility for a management company to acquire voting shares, which would allow it to exercise significant influence over the management of an issuer or a public company, is limited. The provision and application of adequate and effective internal channels and procedures for reporting by the employees of the investment company and the depositary of actual or possible violations of this law and the acts for its implementation shall also be regulated.

The Act to Amend and Supplement the Markets in Financial Instruments Act also regulates the legal separation of the function of keeping a central register of dematerialized securities from the activity of a central depository of securities performed by Central Depository AD.

In the implementation of its action strategy, the FSC paid serious attention and invested the efforts of the team together with the competent state bodies in the preparation for transposition of directives and regulations which are important for the European Union, concerning the regulation of the non-banking financial sector in Bulgaria. Some of the measures concern: increasing the resilience of the EU institutions and strengthening financial stability; strengthening the potential of investment funds as an important tool for directing private savings in the economy and for increasing the financing opportunities of enterprises; higher level of investor protection; harmonizing the national regimes in the field of covered bonds; prudential supervision of investment firms; reducing the risk for OTC derivative contracts that have not been cleared through a central counterparty, the registration and supervision of trade repositories, as well as the requirements for trade repositories; the ratio of net stable financing, capital requirements and eligible liabilities requirements, counterparty credit risk, market risk, exposures to central counterparties, exposures to collective investment undertakings, large exposures, reporting and disclosure requirements; disclosure of information related to sustainability in the financial services sector, etc.

Some of the results of the implemented measures are directly related to the areas of: exempt entities, financial holdings, mixed financial holding companies, remuneration, supervisory measures and powers and capital retention measures; the capacity to absorb losses and recapitalize credit institutions and investment firms; cross-border distribution of collective investment undertakings; the issuance of covered bonds and their public supervision; public supervision of covered bonds and requirements for public disclosure of information on covered bonds; the capacity to absorb losses and recapitalize credit institutions and investment firms; uniform rules at EU level on development; the licensing of securities, as well as the requirements for the recognition of securities by third countries; promoting the use of SME growth markets.

In the field of insurance, amendments were made to the Insurance Code concerning travel assistance and civil liability insurance contracts, which provide for supplying detailed and accurate information to the insurer on age, gender, health and financial status of the insured. The amendments were made in order to ensure the lawful processing of personal data of the insured persons.

The changes in the by-laws and regulations aim at their adaptation to the adopted legal amendments and introduction of the best international practices. The Commission has adopted amendments to dozens of regulations to help regulate the capital adequacy and liquidity of investment firms; to identify regulated markets by third countries that are equivalent to regulated markets or multilateral trading facilities in a

Member State of the European Union or in another country party to the Agreement on the European Economic Area; for the requirements to the reporting, the assessment of assets and liabilities and the formation of the technical reserves of the insurers, the reinsurers and the Guarantee Fund; for the minimum content of the investment policies of the supplementary pension funds; for the functions and obligations of the units, services and persons performing risk management, internal control and internal audit in the pension insurance companies; for the minimum level of credit ratings of banks and for determining the countries, international financial organizations, markets and indices of these markets according to the Social Insurance Code and others.

During the year, the Commission team focused its efforts on changes in the by-laws and regulations, respecting its commitment and developing, in joint competence with other state institutions, two extremely important draft regulations in the field of insurance. In August 2019, the Guarantee Fund proposed a draft Methodology for determining the amount of compensation for pecuniary and non-pecuniary damages due to bodily injury to an injured person and for determining the amount of compensation for pecuniary and non-pecuniary damages to an injured party due to the death of an injured person. An ordinance for its approval was submitted to the responsible institutions - the FSC, the Ministry of Health and the Ministry of Labor and Social Policy. The three institutions work in joint competence, consider the received opinions and proposals of the stakeholders, and the Ordinance is expected to be finalized and proposed for public discussion within 2020. Also together with the Ministry of Interior and the Ministry of Transport and Information Technology is developed a new version for the bonus-malus system. After numerous discussions with all stakeholders and implementation of the proposed relevant changes, the draft Ordinance on the bonus-malus system, together with the reasons and proposals for amendment of Ordinance No 49 of 16.10.2014 on compulsory civil liability insurance of motorists and accident insurance of passengers in public transport (Ordinance No 49) was agreed and approved by all three responsible institutions. The draft and the accompanying documents are to be uploaded on the Public Discussion Portal and on the FSC website, in order to start the one-month public discussion provided by law. The decision for this will be made when the overall situation in Bulgaria allows for a real public debate and meetings with stakeholders.

In the field of capital markets over the past year and within the set goals for a stable capital market in Bulgaria, the FSC has not revoked the license of any supervised entities. In 2019, two new licenses were issued to special purpose investment companies. In the reporting year 2019, several proceedings for confirmation of prospectuses were suspended - 2 proceedings for confirmation of a prospectus for initial public offering of shares and 1 proceeding for confirmation of a prospectus for admission to trading on a regulated market of bonds due to other proceedings that have prejudicial significance in respect of applications for confirmation of prospectuses. As of 2019 towards 2020, the FSC has the goal to complete 9 more pending proceedings for approval of prospectuses – both proceeding for admission to trading bond issues and proceedings for initial public offering of shares.

In 2019, a total of 36 issues of securities were entered in the FSC register, both issues of new companies that are admitted to trading on a regulated market for the first time and issues of a subsequent increase in the capital of public companies. This includes bond issues as a result of the approval of a prospectus for admission to trading on a regulated market of the bonds issued under the terms of initial private offering within the meaning of the Commercial Act.

In the field of Insurance and Reinsurance during the reporting year and within the set goals for a stable insurance market in Bulgaria, the FSC revoked the license of one of the non-life insurers - Insurance Company Euroamerican AD, imposing a ban on the free disposal of assets until the beginning of liquidation or insolvency proceedings, prohibited the conclusion of new insurance contracts for all classes of insurance for a period of 6 months from the date of issuance of the decision and appointed a conservator until the appointment by the court of a receiver or registration of a liquidator of the company. During the year the commission did not issue licenses to new companies based in the Republic of Bulgaria or to branches of insurers from third countries to carry out insurance activity in the country.

A goal of high public importance set before the Commission was to support the process of resolving the Olympic case, for which I personally made a commitment to the MPs of the Republic of Bulgaria. A decision for initiating liquidation proceedings of Olympic Insurance Company AD as an insurer with a revoked license was issued on 30.07.2019 by the District Court in the city of Nicosia, Republic of Cyprus. The Commission was in constant contact with the appointed liquidators, the responsible authorities in Cyprus, as well as with the Guarantee Fund of the Republic of Bulgaria and publicly disclosed any available information regarding the liquidation proceedings of Olympic Insurance Company AD.

In the field of supplementary pension insurance there is stability and predictability, and during the reporting year 2019 there were no applications for issue of licenses and for transformation of pension insurance companies and/or supplementary pension funds, for voluntary winding-up of existing companies, and the FSC did not establish grounds to withdraw issued pension licenses.

In the field of supervisory activity, the emphasis continued to be on off-site supervision. For investment firms, the Central Depository and regulated markets, the aim is regular monitoring of compliance with the regulations by investment firms (IFs) and in particular assessment of the financial status of each of them, as well as the legality of their activities. A risk-based approach has been introduced in assessing the risk of money laundering and financing of terrorism for investment firms and credit institutions offering investment services. The object of the off-site supervision with regard to the collective investment schemes (CISs) and the management companies (MCs) are their annual financial statements regularly submitted to the FSC.

The supervision activity, which the Insurance Supervision Division of the FSC exercised in 2019 over the activities of the supervised entities, consisted of controlling their compliance with the requirements of the Insurance Code (IC), the acts for its implementation, as well as the acts of the European Commission implementing Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II). In the course of the current off-site supervision, the implementation of the legal provisions of the Insurance Code regarding the minimum capital requirement and the capital requirement for solvency was checked. An examination and verification of the solvency and financial condition reports submitted the regular supervisory reports and the reports on the results of the assessment of the aggregate solvency needs presented by insurers and reinsurers were also carried out. During the year, off-site inspections were performed of the methods used and the assumptions made to determine the fair value of shares held by insurers that are not traded on regulated markets; the balances on deposit and current accounts of some of the insurers; the existence of burdens on bank accounts held by insurers during the same period, including distraints (imposed, enforced and lifted ones);

One of the most significant results achieved by the Financial Supervision Commission in 2019 was that of the actions related to Bulgaria's intention to join ERM II. In this regard, and in view of the implementation of the measures set out in the National Reform Program in response to the specific recommendations of the EU Council of 2018, the introduction of risk-based insurance and pension insurance supervision was crucial for improving the supervisory activity of the FSC..

A quantitative and qualitative analysis of each insurer and reinsurer was performed in order to prepare the impact assessment and risk assessment according to the Risk-Based Supervision Manual adopted in 2018. The results of the analyzes are reflected in the Annual Supervisory Plan for 2020, which contains all measures planned for each insurer and reinsurer on the basis of the risk-based review. A number of meetings were held with representatives of the European Insurance and Occupational Pensions Authority (EIOPA) to discuss the financial situation and solvency of some insurers, as well as the supervisory actions taken by the FSC. The Commission team agreed on an Action Plan between the FSC and EIOPA in early August 2019, which covers several areas, namely: technical provisions, Clean Cut reinsurance contracts, the prudent investor principle, valuation of bonds and shares, classification of related companies, including participations and scope of group supervision, efficiency of the management system and solvency. Following the coordination of the Action Plan, active correspondence continued with EIOPA on its implementation, including insurers and the areas in which implementation was achieved. As a result of the efforts made, in November 2019 EIOPA gave a positive assessment to the European Commission in connection with Bulgaria's intention to join ERM II, provided that additional supervisory measures are in place to be monitored by EIOPA.

Supplementary pension insurance is an activity of extremely high public importance. Therefore, based on the Manual for the implementation of risk-based supervision on pension insurance companies (PICs) and supplementary pension funds (SPFs) managed by them, approved at the end of 2018, in 2019 the first comprehensive assessment of the risk profile was performed for each company. The results of the performed assessments and their analysis are reflected in the Annual Supervisory Plan for 2020. A supervisory review was also performed regarding the compliance of the activity of the pension insurance companies and the supplementary pension insurance funds managed by them with the new regulations, effective from 18.11.2018 within the deadline for compliance with regulatory requirements, which imposes high standards in the work of the persons exercising control over the implementation of the requirements of the regulatory framework.

The report also reflects the activities of the FSC in the field of international cooperation. The Financial Supervision Commission, as a participant in the European System of Financial Supervision (ESFS), is actively involved in the activities of the European regulatory authorities (ESMA and EIOPA) in order to associate the Bulgarian non-banking sector to the single European financial market.

In conducting investigations of individuals and legal entities, licensing and other procedures, the FSC continued to effectively exchange information with foreign supervisors from both the EU and third countries. In addition, memoranda were signed with the European Central Bank and the China Banking and Insurance Regulatory Commission.

In 2019, the FSC took an active part in the process of accession of the Republic of Bulgaria to the Organization for Economic Cooperation and Development (OECD). At present, accession is defined as an important goal of the foreign policy of the Republic of Bulgaria. A key stage on the path to the country's accession to the international organization is the accession to the Code of Liberalization of Capital Movements and the Code of Liberalization of Current Invisible Operations of the OECD. Representatives of the Bulgarian supervisory authority also participated in a number of meetings at both national and international levels to discuss the details and processes of the two founding codes of the OECD.

The Annual Report presents the activity of the FSC in terms of protection of consumers of non-bank financial services, as well as its role in informing market participants and the public.

In 2019, the focus was on the external communications of the Financial Supervision Commission. The main goal was to inform consumers of financial services and increase public confidence in the Commission's activities. In this regard, awareness campaigns were carried out through publications and interviews in electronic and print media, including the case with Olympic Insurance Company, "How to recognize the licensed investment firm", together with the Bulgarian Association of Licensed Investment Firms (BALIF), and an awareness campaign on the bonus-malus system.

Increasing the public financial literacy is one of the priorities of the FSC and a large part of the activity in 2019 was aimed in this direction. Representatives of the Commission took part in a number of conferences, seminars, workshops and educational initiatives not only at national level but also internationally. The experts and the management team were actively involved in traditional initiatives such as the one-week educational program for students, participation in the Manager for a Day initiative, participation of FSC lecturers and cooperation in academies and university events, as well as joint initiatives. The project in the field of financial education, which is being implemented by the International Network on Financial Education of the Organization for Economic Cooperation and Development (OECD) and the Ministry of Finance of the Netherlands, has also continued.

In 2019, the Chairperson of the Financial Supervision Commission and the Vice-Chairpersons took part in most important economic and financial forums at the national level. FSC officials took part in a number of seminars and discussion meetings held abroad and in Bulgaria in order to exchange experience and good practices and position the Commission internationally at a high expert level.

The Commission focuses on the effective implementation of its regulatory and supervisory functions with an emphasis on ensuring stability, transparency and confidence, increasing the protection of the rights and interests of consumers of non-banking financial services, building a stable and adequate infrastructure through continuous synchronization of Bulgarian legislation and supervisory practices with European ones and by introducing rules and systems for risk management. In the spirit of dialogue and active communication with national and international bodies and organizations, the Commission is actively working to monitor and take timely measures to improve existing regulations, to correct identified gaps and inconsistencies and to develop it in line with changes in the economic and legal system, including the timely implementation of the measures addressing the specific recommendations of the Council on the prevention and correction of macroeconomic imbalances, and for the implementation of the intentions of the Republic of Bulgaria to join the Exchange Rate Mechanism II (ERM II) and the Banking Union.

Structurally, the presented report consists of two parts. The first part outlines the activities of the FSC pursuant to its competencies as regulatory and supervisory body of the non-banking financial sector and the second part of the report represents comprehensive market analysis of the non-banking financial sector in Bulgaria under the conditions of the global and European economic environment in 2019.

I would like to take this opportunity to note that in 2019 the team of the Financial Supervision Commission has worked on the sustainable improvement of regulatory and supervisory activities so that they meet the challenges in the investment, insurance and pension insurance sectors. As an independent regulatory body, the Commission will continue to operate in the framework of legality, impartiality and fairness in 2020. I deeply believe that this is the right way to achieve efficient markets and high public confidence. I thank the entire team for the achieved results. I also thank both the society and the institutions in the Republic of Bulgaria for their confidence!

Boyko Atanasov

I. FSC'S ACTIVITY IN 2019

1. Regulatory activities

1.1. Amendments to the regulatory framework

Amendments to the regulatory framework

In 2019, the following bills prepared by the Financial Supervision Commission were adopted:

Act to Amend and Supplement the Social Insurance Code¹

Directive (EU) 2016/2341 of the European Parliament and of the Council of 14 December 2016 on the activities and supervision of institutions for occupational retirement provision, hereinafter "Directive (EU) 2016/2341", has significantly developed the regulation of insurance under occupational schemes and the supervision over this activity. In connection with this, with the draft Act to Amend and Supplement the Social Insurance Code (SIC), changes have been made in the national regulation in order to comply with the legislation of the European Union (EU).

The requirements to the management system of the pension insurance companies and the implementation of the key functions of risk management, internal audit and actuarial activity and in particular the actuarial function and risk self-assessment, which covers all major risks in the company's activities and the funds managed by it, have been further developed.

The draft act also establishes a comprehensive regulation of the requirements for outsourcing, not allowing it for the management of investments of pension funds and the implementation of key functions given their fundamental importance for the activities of the company and the funds, and the high requirements to them. A consistent approach has been taken not to allow the delegation of core business activities, due to the fact that pension insurance companies are companies with an exclusive object of activity.

Also, in accordance with the requirements of Directive (EU) 2016/2341, changes have been made in the regime of investment of the funds of supplementary voluntary pension insurance funds under occupational schemes. It is possible to invest the funds in shares and bonds traded on a multilateral trading facility and on an organized trading facility, and in this connection a quantitative restriction has been introduced for exposure to instruments that are accepted only at the specified trading locations, with a view to liquidity risk management.

It is also possible to take into account the environmental, social and managerial factors in investing, when they are included in the investment policy of the fund. Given the fact that Directive (EU) 2016/2341 eliminates the possibility of requirements to the investment activities of foreign institutions for occupational pension insurance, managing occupational schemes of Bulgarian companies acting as insurers, the rules in this regard in Art. 251, para. 12 of SIC have been revoked.

The draft act regulates the transfer of an occupational scheme or part of it from one to another fund for supplementary voluntary pension insurance under occupational schemes, as well as from and to foreign institutions for occupational pension insurance. The transfer of an occupational scheme, or part of it, shall take place after prior approval by the competent supervisory authority in accordance with the provisions of Directive (EU) 2016/2341 and in order to protect the rights and interests of insured persons and pensioners.

¹ Prom. SG, issue 12 of 08.02.2019

Amendments have been made in connection with the unification of the regime of provision of services by the institutions for occupational pension insurance in the country and in the other EU Member States with a view to the application of the Principle of Freedom to Provide Services in the EU, based on the so-called . “Single passport”.

The single passport is based on the principle of universal recognition in the EU Member States of the license obtained in one Member State on the basis of harmonized prudential requirements for the institutions. In essence, this principle allows an EU financial institution, such as the professional scheme, once licensed by the national authority of the sending Member State, such as Bulgaria (for which license the institution must meet certain requirements arising from harmonized EU law , applied equally in all Member States), to provide its services in any other EU Member State without the need to obtain a license from the competent authority of the other, host Member State.

The supervisory review process is regulated in accordance with the requirements of Directive (EU) 2016/2341. The principle requirement for risk-based supervision is regulated, which contributes to the optimal allocation of supervisory resources and the timely identification of potential problems in the supplementary pension insurance sector. Stress tests have been introduced by the Financial Supervision Commission and by the Deputy Chairperson of the Financial Supervision Commission in charge of the Social Insurance Supervision Division.

Act to Amend and Supplement the Markets in Financial Instruments Act²

The draft Act to Amend and Supplement the Markets in Financial Instruments Act (MFIA) introduces into Bulgarian legislation measures for the implementation of 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 (Regulation (EU) No 909/2014), by which the European legislation regulates the settlement of dematerialized securities and the activity of the central securities depositories.

In view of the significance of the activities of central securities depositories and in order to ensure the protection of financial markets and create confidence among market participants that transactions in financial instruments are carried out properly and in a timely manner, even in situations of emergency, the draft act introduces measures to ensure the continuity of the activities of central securities depositories in accordance with the requirements of Regulation (EU) No 909/2014.

A requirement is introduced for the central securities depositories to prepare and maintain a recovery plan with content according to Art. 8 (3) of Commission Delegated Regulation (EU) 2017/392 of 11 November 2016 supplementing Regulation (EU) No 909/2014 of the European Parliament and of the Council with regard to regulatory technical standards on authorization, supervisory and operational requirements for central securities depositories, which ensures the continuity of the activity of the central securities depository.

Specific administrative penalties and other measures applicable in the circumstances referred to in Article 63 of Regulation (EU) No 909/2014 shall be introduced into national legislation in respect of persons responsible for infringements of the provisions of the Regulation, and all necessary measures shall be taken to ensuring their implementation.

Through a change in Art. 1, para. 2, item 3 of the Credit Institutions Act, the Bulgarian National Bank (BNB) is defined as a competent body for licensing and supervision of central securities depositories

² Prom. SG, issue 83 of 22.10.2019

in the provision of additional banking services and the banks designated to provide banking-type ancillary services according to Art. 54 (2) of Regulation (EU) No 909/2014, as well as for supervision of the activity for provision of banking-type ancillary services and for fulfillment of the prudential requirements under Art. 59 of Regulation (EU) No 909/2014 by the central securities depositories under Art. 54 (2) (a) and of the banks designated for the provision of banking-type ancillary services under Art. 54 (2) (b) of Regulation (EU) No 909/2014.

The draft act makes the following amendments to the Public Offering of Securities Act:

- The separation of the function of keeping a central securities register from the activity of a central securities depository, performed by Central Depository AD, is regulated, which achieves legal security of these public relations. This ensures the protection of financial markets and creates confidence among market participants that transactions in financial instruments are carried out properly and in a timely manner, even in situations of emergency;

- A central register of securities is established, kept by Central Depository AD, containing dematerialized securities issued by companies with registered office in the Republic of Bulgaria, as well as by issuers whose securities are issued in accordance with the legislation of the Republic of Bulgaria. Thus, this activity of Central Depository AD is separated from the other activities of the central securities depositories. The central securities register shall contain information from the central securities depositories with which the relevant issues of dematerialized securities have been registered for settlement, in view of the freedom of choice of issuers introduced by Regulation (EU) No 909/2014. The rules of the central register of securities regulate the registration, keeping, storage and access to the register.

The draft act proposes measures aimed at complying with the requirements of Commission Delegated Regulation (EU) No 2017/575 of 8 June 2016 with regard to regulatory technical standards concerning the data to be published by execution venues on the quality of execution of transactions with regard to the periodicity of disclosure of information required on the basis of Art. 11 of the same regulation.

The draft act removes established deficiencies in the legal framework of the institute of the bound agent in cases where the tied agent is a legal entity, introduces requirements for persons with qualified holdings in the tied agent, as well as subsequent approval of the members of its management body. Next, provisions are introduced to clarify the act in accordance with Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU in the regulation of the offering of structured deposits by investment firms and banks, as well as introducing the respective supervisory and monitoring powers of the FSC and the BNB.

The draft act provides for amendments to the Commercial Act (CA), the Civil Procedure Code (CPC), the Act Restricting Administrative Regulation and Administrative Control over Economic Activity, the Judiciary Act, the Special Pledges Act, the SIC, the Insurance Code (IC), the Financial Supervision Commission Act (FSCA), the Collective Investment Schemes and Other Undertakings for Collective Investments Act (CISOUCIA) and other laws.

Act to Amend and Supplement the Collective Investment Schemes and Other Undertakings for Collective Investments Act³

³ Prom. SG, issue 102 of 31.12.2019.

The draft act to Amend and Supplement the Collective Investment Schemes and Other Undertakings for Collective Investments Act introduces measures into the national legislation, which provide conditions for the implementation of Regulation (EU) No 2017/1131 of the European Parliament and of the Council of 14 June 2017 on money market funds (Regulation (EU) No 2017/1131). The regulation aims to improve regulation and a higher level of investor protection and to reduce problems in the short-term financing market.

In order to protect investors, a requirement is introduced for performing stress tests by money market funds in accordance with Art. 28 of Regulation (EU) No 2017/1131.

A requirement is also introduced that the documents required for the organization and management of money market funds comply with the requirements of Regulation (EU) No 2017/1131, and that management companies as well as alternative investment fund managers who manage funds of the money market, to apply the requirements of Regulation (EU) No 2017/1131.

In order to provide a legal framework ensuring the development of the Bulgarian financial market in accordance with European trends, a requirement is introduced that the prospectus of a collective investment scheme, which has different classes of units, contain a description of the characteristics that are specific to each class, with clear indication of the differences between the different classes, in connection with the Opinion of 31 January 2017 of the European Securities and Markets Authority - ESMA 34-43-296.

A requirement by Directive 2009/65/EC of the European Parliament and of the Council of 13 July 2009 on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS) (Directive 2009/65/EC), restricts the ability of a management company, acting on behalf of all collective investment schemes or other collective investment undertakings managed by it, to acquire voting shares which would allow it to exercise significant influence over the management of an issuer or a public company. The draft act introduces a definition of the term “significant influence” and provides for a transitional period within which individuals can bring their activities in line with the proposed changes.

The provisions related to the capital adequacy and liquidity of the management companies are specified by introducing a differentiated approach regarding the actions and measures to be taken in case of violation of the regulatory requirements, which ensures full compliance with the requirements of Art. 10 of Directive 2009/65/EC.

A procedure is introduced for issuing a permit under Art. 26 of Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 as regards a management company.

Considering the need for comply with a study performed by the EC regarding the implementation of Directive 2009/65/EC, the provision and application of adequate and effective internal channels and procedures for reporting by the employees of investment companies and depositories of actual or possible violations of the act and the acts for its implementation shall also be regulated.

The requirements for the management and representation of a management company are harmonized with those of the investment firms, insofar as there is no reason for simplified treatment of the persons managing collective investments. It is explicitly regulated that a management company is managed and represented by at least two persons, which in application of the requirements of the Commercial Act will lead to the need to change the members of some of the management bodies of the management companies or to elect a procurator. The requirements for professional experience of the members of the management and supervisory body of a management company have been further developed, as they have been expanded

and harmonized with those of investment firms, insofar as their activities and services are comparable. The latter will make it easier for management companies to select persons to manage and / or represent them.

Amendments to the current legislation regarding collective investment undertakings are also made in connection with the requirements of Directive (EU) 2015/849 of the European Parliament and of the Council of 20 May 2015 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing.

The draft act makes changes in the tariff, defined in an annex to Art. 27, para. 1 of the FSCA, in connection with the specification and differentiation of fees for general financial supervision, which are due by the alternative investment fund managers.

Amendments have also been introduced in the administrative penal provisions, and the texts regulating the disclosure of the imposed penalties and the applied coercive administrative measures have been clarified, which achieves full compliance with Directive 2009/65/EC.

Amendments and supplementations to the Insurance Code

With the Act to Amend and Supplement the Protection of Personal Data Act⁴, amendments and additions have been made to the Insurance Code (IC), which concern the Travel assistance and Civil liability insurance contracts, and for both types of insurance a referring paragraph to Art. 454 of the Insurance Code has been provided, for the provision of detailed and accurate information to the insurer regarding the age, sex, health and financial condition of the insured person. Amendments have been made to Art. 514, para. 7 and Art. 571, para. 8 of the IC for the purpose of specifying the regulations and due to the necessity of the lawful processing of personal data for the health condition in the sense of art. 9, point 4 of Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC (General Data Protection Regulation).

With the Act to amend and supplement the Republic of Bulgaria Defense and Armed Forces Act⁵, in force since 28.05.2019, Art. 489 of the IC has been supplemented with a new para. 8, which refers to the border compulsory civil liability insurance of motorists in respect of personal motor vehicles of servicemen and members of the civilian component of allied or foreign armed forces, as well as accompanying dependents. The provision gives the persons the opportunity to renew the border civil liability insurance of motorists an unlimited number of times, thus derogating from the provision of Art. 489, para. 6 of the IC. The supplementation is necessary in view of the amendments in Art. 43, para. 1 of the Act on Passage through and Presence within the Territory of the Republic of Bulgaria of Allied and of Foreign Armed Forces, by which the plates with registration number of the official motor vehicles of the NATO structure and / or of the sending state and of the personal motor vehicles of the servicemen and the members of the civilian component of Allied or foreign armed forces that are part of a NATO structure located on the territory of the Republic of Bulgaria, as well as the accompanying dependent persons, shall be recognized by the Republic of Bulgaria.

Amendments in the by-laws and regulations

⁴ Prom. SG, issue 17 of 26.02.2019

⁵ Prom. SG, issue 42 of 28.05.2019

In 2019, the Financial Supervision Commission adopted the following regulations, which were promulgated in the State Gazette:

- Ordinances to amend and supplement Ordinance No 50 of 19.06.2015 on capital adequacy, liquidity of investment firms and supervision of compliance thereof⁶;
- Ordinance No 65 of March 22, 2019 for persons receiving market studies⁷;
- Ordinances to amend and supplement Ordinance No 46 of 11.04.2012 on the procedure and manner of payment of compensations by the Investor Compensation Fund⁸. With the Ordinance to amend and supplement Ordinance No 46, prom. SG, issue 66 of 2019 amendments and supplements were made to Ordinance No. 48 of 20.03.2013 on the remuneration requirements;
 - Ordinance to amend and supplement Ordinance No 55 of 11.07.2017 for identifying regulated markets by third countries that are equivalent to regulated markets or multilateral trading facilities in a Member State of the European Union or in another country – party to the Agreement on the European Economic Area⁹;
 - Ordinance amending and supplementing Ordinance No 28 of 10.05.2006 on the conditions and procedure for conducting an examination for professional qualification of insurance brokers and for recognition of a qualification acquired in a Member State¹⁰;
 - Ordinance No 66 of 16.05.2019 regarding the additional requirements in connection with the classification of investment insurance products as non-complex within the meaning of Art. 342, para. 5 of the IC¹¹;
 - Ordinance No 67 of 04.07.2019 on the procedure for electronic registration of insurance firms¹². The Ordinance stated amends and supplements Ordinance No. 15 of 2005 on keeping and storing registries by the Financial Supervision Commission and the circumstances subject to entry;
 - Ordinance to amend and supplement Ordinance No. 61 of 27 September 2018 on the requirements for advertising and written information materials and the web pages of the pension insurance companies¹³. The Ordinance stated amends and supplements Ordinance No. 15 of 05.05.2004 on keeping and storing registries by the Financial Supervision Commission and the circumstances subject to entry; Ordinance No. 17 of 2004 on the documents necessary for the issuance of a permit for the transformation of a pension insurance company and of a supplementary pension insurance fund and for the requirements to the plans under Art. 327, para. 1, item 3 and Art. 336, para. 1 of the Social Insurance Code; Ordinance No 34 of 04.10.2006 on the terms and conditions for concluding transactions to reduce the investment risk related to assets of a supplementary pension insurance fund and on the requirements to and limitations on such transactions, and in Ordinance No 56 of 04.01.2018 on the minimum content of the investment policies of the supplementary pension insurance funds;

⁶ Prom. SG, issue 11 of 05.02.2019 and issue 66 of 20.08.2019

⁷ Prom. SG, issue 27 of 02.04.2019

⁸ Prom. SG, issue 34 of 23.04.2019 and issue 66 of 20.08.2019

⁹ Prom. SG, issue 66 of 20.08.2019

¹⁰ Prom. SG, issue 42 of 28.05.2019

¹¹ Prom. SG, issue 42 of 28.05.2019

¹² Prom. SG, issue 55 of 12.07.2019

¹³ Prom. SG, issue 41 of 21.05.2019

- Ordinance to amend and supplement Ordinance No. 48 of 20.03.2013 on the remuneration requirements¹⁴. This ordinance also amends and supplements Ordinance No. 10 of 2003 on the requirements for the composition and the structure of the equity (the capital base) of the pension insurance company, its recovery program, and for the minimum liquid assets of the company and the supplementary pension insurance funds managed by it; Ordinance No. 31 of 02.08.2006 on the conditions and procedure for conducting an examination and for the recognition of the competence of a responsible actuary, for the recognition of legal capacity acquired outside the Republic of Bulgaria, for the form of actuarial certification, the form and the content of the actuarial report and the references under the Insurance Code that the responsible actuary certifies, as well as for the form and mandatory content of the annual actuarial report under the Social Insurance Code; Ordinance No 33 of 19.09.2006 on the individual applications for participation in an additional mandatory pension insurance fund and for resumption of the insurance in a universal pension fund, Ordinance No 57 of 16.01.2018 on the requirements to the annual report on the occupational scheme and on the procedure and method of providing data for the management of an occupational scheme of a foreign insurer enterprise and in Ordinance No. 59 of 4.04.2018 on the functions and duties of the units, departments and persons performing risk management, internal control and internal audit in the pension insurance companies, and it revokes Ordinance No. 36 of 15.11.2006 on the technical reserves to a supplementary voluntary pension fund under occupational schemes.

At the end of the reporting period in connection with the withdrawal of the United Kingdom from the EU, a draft Ordinance amending and supplementing Ordinance No. 29 of 12.07.2006 on the minimum level of banks' credit ratings and for determining the countries, the international financial organizations, the markets and the indices of these markets according to Art. 176, para. 2 of the Social Insurance Code¹⁵, which also amends Ordinance No 34 of 04.10.2006 on the terms and conditions for concluding transactions to reduce the investment risk related to assets of a supplementary pension insurance fund and on the requirements to and limitations on such transactions. The draft was published for public discussion on 04.12.2019 and was adopted by the FSC on 16.01.2020 (Prom. SG, issue 8 of 28.01.2020).

Draft Ordinance on the bonus-malus system for compulsory motor third party liability insurance

The FSC, together with the Ministry of Interior and the Ministry of Transport and Information Technology, have developed a new version of the bonus-malus system.

Due to the high public interest, the FSC, as the main leader in compiling the bonus-malus system, published on its website a draft ordinance on the bonus-malus system on compulsory motor third party liability insurance, together with the reasons for it, as well as a draft for subsequent changes in Ordinance No 49, which present a complete model of the functioning of the future system. The FSC uses the public consultation mechanism to conduct an in-depth study of the public response and to enable all stakeholders to comment on the proposed bonus-malus system.

After numerous discussions with all stakeholders and implementation of the proposed relevant changes, the draft Ordinance on the bonus-malus system, together with the reasons and proposals for amendment of Ordinance No 49 of 16.10.2014 on compulsory civil liability insurance of motorists and

¹⁴ Prom. SG, issue 41 of 21.05.2019

¹⁵ Prom. SG, issue 8 of 28.01.2020.

accident insurance of passengers in public transport (Ordinance No 49) was agreed and approved by all three responsible institutions. The draft and the accompanying documents are to be uploaded on the Public Discussion Portal and on the FSC website, in order to start the one-month public discussion provided by law. The decision for this will be made when the overall situation in Bulgaria allows for a real public debate and meetings with stakeholders.

Draft ordinance for determination of a Methodology for determining the amount of compensation for pecuniary and non-pecuniary damages due to bodily injury to an injured person and for determining the amount of compensation for pecuniary and non-pecuniary damages to an injured party due to the death of an injured person.

In August 2019, the Guarantee Fund submitted to the FSC a draft Methodology for drafting an Ordinance for its approval. It was submitted to the responsible institutions - the FSC, the Ministry of Health and the Ministry of Labor and Social Policy. The three institutions work in a joint competence, and the Ordinance is expected to be finalized and proposed for public discussion within 2020.

1.2. New aspects of EU policy

Directives and Regulations of the European Union

The following directives and regulations were published in the Official Journal of the EU:

Directive (EU) 2019/878 of European Parliament and of the Council of 20 May 2019 amending Directive 2013/36/EU as regards exempted entities, financial holding companies, mixed financial holding companies, remuneration, supervisory measures and powers and capital conservation measures

The Directive introduces amendments to Directive 2013/36, which has been transposed into the Markets in Financial Instruments Act and Ordinance No 50 of the FSC. The deadline for transposition of the Directive is 28 December 2020 and the deadline for implementation is 29 December 2020. With regard to some provisions described in Art. 2 deferred implementation from 01.01.2022 is planned.

Directive (EU) 2019/879 of the European Parliament and the Council of 20 May 2019 amending Directive 2014/59/EU as regards the loss-absorbing and recapitalization capacity of credit institutions and investment firms and Directive 98/26/EC

The Directive introduces amendments to Directive 2014/59, which has been transposed mainly in the Recovery and Resolution of Credit Institutions and Investment Firms Act (RRCIIFA). The deadline for transposition and application of the Directive is 28 December 2020.

Both directives (2019/878 and 2019/879) as well as Regulation (EU) No 2019/877 aim to introduce the following measures:

Measures to increase the resilience of the EU institutions and to strengthen financial stability. The proposals cover other elements of the legal framework recently adopted by the Basel Committee on Banking Supervision (BCBS) and the Financial Stability Board (FSB). They include:

- more risk-sensitive capital requirements, in particular in the area of market risk and counterparty default risk, as well as in relation to exposures to central counterparties (CCPs);

- applying methodologies that more accurately reflect the real risks to which banks are exposed;
- mandatory leverage ratio (LR) to protect institutions from excessive leverage;
- a mandatory net stable funding ratio (NSFR) to address the overuse of short-term wholesale financing and to reduce the risk of long-term financing;
- requiring global systemically important institutions (G-SIIs) to maintain minimum levels of capital and other instruments to absorb losses in a restructuring regime. This requirement, called “Total loss-absorbing capacity” (TLAC), will be included in the existing system of minimum requirements for own funds and eligible liabilities (MREL), which applies to all banks, and will strengthen the EU’s ability to restructure the problematic G-SIIs, while protecting financial stability and minimizing risks for taxpayers. A harmonized ranking of unsecured debt instruments at national level in insolvency proceedings is proposed to make it easier for banks to issue such debt loss instruments.

The legislative package also introduces measures to improve banks’ lending capacity to support the EU economy and to further facilitate the role of banks in achieving deeper and more liquid capital markets in the EU in support of the creation of a union of capital markets.

Directive (EU) 2019/1160 of European Parliament and of the Council of 20 June 2019 amending Directives 2009/65/EC and 2011/61/EU with regard to cross-border distribution of collective investment undertakings

The Directive amends Directive 2009/65/EC and Directive 2011/61/EU, which have been transposed into the Collective Investment Schemes and Other Undertakings for Collective Investments Act (CISOUCIA). The regulatory act, together with Regulation (EU) No 2019/1156, are part of the initiative to build a Capital Markets Union and aim to strengthen the potential of investment funds as an important tool for directing private savings in the economy and to increase funding opportunities for enterprises. Barriers to all types of investment funds are being removed and cross-border offering will be made easier, faster and cheaper. Increased competition will lead to more choice and better offers, without compromising the high level of investor protection. The deadline for transposition and application of the Directive is 2 August 2021.

Directive (EU) 2019/2162 of the European Parliament and of the Council of 27 November 2019 on the issue of covered bonds and covered bond public supervision and amending Directives 2009/65/EC and 2014/59/EU

The directive introduces detailed regulations in the field of covered bonds to harmonize national regimes. To date, common requirements for the structural elements of covered bonds have been established in Directive 2009/65/EC. In particular, this Directive harmonizes the following aspects: the requirements for issuing covered bonds, the structural characteristics of the covered bonds, the public supervision of the covered bonds and the requirements for public disclosure of information on the covered bonds. The deadline for transposition of the Directive is 8 July 2021 and the deadline for application of its provisions is 8 July 2022.

Directive (EU) 2019/2034 of European Parliament and of the Council of 27 November 2019 on the prudential supervision of investment firms and amending Directives 2002/87/EC, 2009/65/EC, 2011/61/EU, 2013/36/EU, 2014/59/EU and 2014/65/EU

The Directive introduces requirements for prudential supervision of investment firms (IFs), which have so far been governed by the general legal framework applicable to both banks and IFs. The separation

of the prudential requirements for IFs in a separate directive contributes to a more adapted and adequate treatment of the specific vulnerabilities and risks inherent in investment firms through effective, appropriate and proportionate prudential rules at Union level, while maintaining compliance costs within reasonable limits and ensure that sufficient capital is available for the risks associated with investment firms.

The Directive governs the initial capital of investment firms, the supervisory powers and the instruments for the prudential supervision of investment firms by the competent authorities in a way that is compatible with the provisions of Regulation (EU) No 2019/2033 and the requirements for disclosure of information by the competent authorities.

The Directive also regulates the supervisory review process (Chapter Two) through:

- procedure for assessment of internal capital adequacy and internal risk, internal management, transparency, risk treatment and remuneration;
- supervisory review and evaluation process;
- supervisory measures and powers;
- supervision on a consolidated basis of groups of investment funds;
- investment holdings, mixed financial holdings and holdings with mixed activity.

The deadline for transposition and application of the Directive is 26 June 2021.

Regulation (EU) No 2019/834 of the European Parliament and of the Council of 20 May 2019 amending Regulation (EU) No 648/2012 as regards the clearing obligation, the suspension of the clearing obligation, the reporting requirements, the risk-mitigation techniques for OTC derivative contracts not cleared by a central counterparty, the registration and supervision of trade repositories and the requirements for trade repositories.

These amendments aim to simplify certain areas covered by Regulation (EU) No 648/2012 by reducing the regulatory and administrative burden in line with the European Commission's Regulatory fitness and performance programme (REFIT), which emphasizes the need of cost reduction and simplification so that Union policies can achieve their objectives in the most efficient way possible.

This Regulation shall enter into force on the twentieth day following that of its publication in the Official Journal of the European Union. It shall apply from the date of entry into force, with the exception of the provisions listed in Art. 2.

Regulation (EU) No 2019/876 on European Parliament and of the Council of 20 May 2019 amending Regulation (EU) No 575/2013 as regards the leverage ratio, the net stable funding ratio, requirements for own funds and eligible liabilities, counterparty credit risk, market risk, exposures to central counterparties, exposures to collective investment undertakings, large exposures, reporting and disclosure requirements, and Regulation (EU) No 648/2012

A number of texts of the amending regulation provide for options for Member States to introduce national legislation adapted to market conditions. The Regulation shall apply from 28 June 2021, with the exception of the provisions referred to in Art. 3, para. 3, which shall apply from 27 June 2019 and Art. 3, para. 4, which shall apply from 28 December 2020.

Regulation (EU) No 2019/877 of the European Parliament and the Council of 20 May 2019 amending Regulation (EU) No 806/2014 as regards the loss-absorbing and recapitalization capacity of credit institutions and investment firms

The Regulation will apply from 28 December 2020. For more information, see Directives 2019/878 and 2019/879 above.

Regulation (EU) No 2019/1156 of the European Parliament and of the Council of 20 June 2019 on facilitating cross-border distribution of collective investment undertakings and amending Regulations (EU) No 345/2013, (EU) No 346/2013 and (EU) No 1286/2014

The regulation, together with Directive (EU) 2019/1160, are part of the initiative to build a Capital Markets Union and aim to strengthen the potential of investment funds as an important tool for directing private savings in the economy and to increase funding opportunities for enterprises. Barriers to all types of investment funds are being removed and cross-border offering will be made easier, faster and cheaper. Increased competition will lead to more choice and better offers, without compromising the high level of investor protection. The Regulation amends Regulations 345/2013 (EUVECA), 346/2013 (EUSEF) and 1286/2014 (PRIIPS). It shall apply from 1 August 2019. Article 4 (1) to (5), Article 5 (1) and (2), Article 15 and Article 16 shall apply from 2 August 2021.

Regulation (EU) No 2019/1238 on European Parliament and of the Council of 20 June 2019 on the Pan-European Personal Pension Product (PEPP)

The regulation establishes uniform rules at EU level on the development, distribution and supervision of personal pension products distributed in the EU under the label Pan-European Pension Product (PEPP). PEPP is a personal pension product that meets the requirements of the regulation and is provided on a voluntary contractual basis between the insured person and a regulated financial institution. The product aims to provide an old-age income, which limits the possibilities for the accumulated funds to be withdrawn before retirement.

The development and marketing of a PEPP requires registration by the European Insurance and Occupational Pensions Authority (EIOPA) in a central public register, which can only be obtained by certain categories of financial institutions regulated by EU law (credit institutions, life insurers, institutions for occupational retirement provision (IORPs), investment firms, investment and management companies and alternative investment fund managers).

The date of application of this Regulation shall be 12 months after the publication in the Official Journal of the European Union of the delegated acts referred to therein.

Regulation (EU) No 2019/2033 of the European Parliament and of the Council of 27 November 2019 on the prudential requirements of investment firms and amending Regulations (EU) No 1093/2010, (EU) No 575/2013, (EU) No 600/2014 and (EU) No 806/2014

The regulation introduces prudential requirements for IFs, which correspond to the nature and scale of their activity and are in line with the risks they take. The current framework has been regulated in Regulation (EU) No 575/2013 and Directive 2013/36/EU, but it is aimed at overcoming the general risks faced by credit institutions and takes into account the specifics of banks. Investment firms do not have large portfolios of consumer and corporate loans and do not accept deposits, and the event of their insolvency is less likely to have an adverse effect on overall financial stability than that of credit institutions. Therefore, the risks faced and effected by most investment firms differ significantly from the risks faced and effected by credit institutions, and this Regulation establishes a Union prudential framework adapted to IFs. In particular, the regulation regulates:

- (a) the capital requirements relating to quantifiable, uniform and standardized risk parameters for the company itself, customer risk and market risk;

- (b) the requirements for limiting the concentration risk;
- (c) the liquidity requirements related to quantifiable, uniform and standardized elements of liquidity risk;
- (d) the reporting requirements in relation to items (a), (b) and (c);
- (e) the public disclosure requirements.

The Regulation shall not prevent investment firms from holding equity and its components, as well as liquid assets, in excess of the requirements of this Regulation or from applying measures more stringent than those provided for therein. The Regulation shall apply from 26 June 2021.

Regulation (EU) No 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector

The regulation aims to establish a harmonized regime in the EU regarding the disclosure to final investors of information on the integration of sustainability risks, the consideration of adverse effects on sustainability, sustainable investment objectives or incentives for environmental and social characteristics in the investment decision-making process and in the process of providing counsel. Obligations are introduced for financial market participants and financial advisers to disclose specific information on their approaches to integrating sustainability risks and to addressing adverse impacts on sustainability.

This Regulation complements the disclosure requirements laid down in Directives 2009/65/EC, 2009/138/EC, 2011/61 / EU, 2014/65 /EU, (EU) 2016/97, (EU) 2016/2341 and Regulations (EU) No 345/2013, (EU) No 346/2013, (EU) No 2015/760 and (EU) No 2019/1238, as well as in national law governing personal and individual pension products.

In order to fulfill their obligations under those rules, financial market participants and financial advisers should integrate in their processes, including their due diligence processes, not only all relevant financial risks but also all relevant sustainability risks that they may have significant negative impact on the financial return of an investment or advice, as well as to carry out a continuous assessment of these risks. Therefore, financial market participants and financial advisers should indicate in their policies how they integrate these risks and publish these policies.

Regulation (EU) No 2019/2099 of the European Parliament and the Council of 23 October 2019 amending Regulation (EU) No 648/2012 as regards the procedures and authorities involved for the authorization of CCPs and requirements for the recognition of third-country CCPs

The Regulation amends the underlying Regulation (EU) No 648/2012 as regards central counterparties (CCPs) by introducing the following rules:

- prudential and organizational requirements for the activity of CCPs;
- enhanced supervisory mechanisms for Union and third-country CCPs;
- more detailed rules on the colleges of competent authorities responsible for the supervision of CCP clearing members;
 - strengthens ESMA's role in coordinating between competent authorities and between colleges with a view to building a common supervisory culture and consistent supervisory practices;
 - a CCP Supervisory Committee is set up - a standing internal committee of ESMA - its composition and functions are defined in a new Chapter 3A (Article 24a et seq.);

- ESMA will be able to determine whether a third country CCP is or is likely to become systemically important for the financial stability of the Union or of one or more of its Member States, after consulting the ESRB and the issuing central banks;
- new powers for ESMA regarding the recognition of CCPs established in a third country to provide clearing services in the EU and, accordingly, to comply with the conditions for their recognition;
- ESMA will be able to set up a college for third country CCPs to facilitate the exchange of information;
- ESMA shall charge fees to CCPs established in third countries in accordance with this Regulation and in accordance with a delegated act;
- additional supervisory powers for ESMA - in order to fulfill its obligations under this Regulation, ESMA may carry out the necessary investigations of Level 2 CCPs and related third parties to which those CCPs have outsourced operational functions, services or activities, and to impose appropriate measures and sanctions. ESMA acts shall be appealed to the Court of Justice of the European Union.

This Regulation shall enter into force on the twentieth day following that of its publication in the Official Journal of the European Union.

Regulation (EU) No 2019/2115 of European Parliament and of the Council of 27 November 2019 amending Directive 2014/65/EU and Regulations (EU) No 596/2014 and (EU) 2017/1129 as regards the promotion of the use of SME growth markets

The Regulation amends the acts referred to in its title in order to increase the attractiveness of SME growth markets by further reducing compliance costs and easing the administrative burden for issuers of financial instruments admitted to trading in SME growth markets. . The measures in this Regulation apply only to companies admitted to trading on SME growth markets. The amending Regulation shall apply from 31 December 2019. However, the amendments to Regulation No 596/2014 shall apply from 1 January 2021.

Regulation (EU) No 2019/2160 of the European Parliament and of the Council of 27 November 2019 amending Regulation (EU) No 575/2013 as regards exposures in the form of covered bonds

In view of the provisions of Directive 2019/2162, it is necessary to supplement Regulation (EU) No 575/2013 (CRD IV) on eligibility requirements for preferential treatment by risk weights in order to cover at least the areas of liquidity risk reduction, over-collateralization, the role of the competent authorities, as well as the further development of the existing requirements for disclosure of information to investors. This Regulation shall enter into force on the twentieth day following that of its publication in the Official Journal of the European Union. It shall apply from 8 July 2022.

Regulation (EU) 2019/2175 of the European Parliament and of the Council of 18 December 2019 amending Regulation (EU) No 1093/2010 establishing a European Supervisory Authority (European Banking Authority), Regulation (EU) No 1094/2010 establishing a European Supervisory Authority (European Insurance and Occupational Pensions Authority), Regulation (EU) No 1095/2010 establishing a European Supervisory Authority (European Securities and Markets Authority), Regulation (EU) No 600/2014 on markets in financial instruments, Regulation (EU) 2016/1011 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds, and Regulation (EU) 2015/847 on information accompanying transfers of funds

The Regulation amends the structural regulations of the European Supervisory Authorities ESMA, EIOPA and EBA, strengthening their powers with a view to achieving greater harmonization and supervisory convergence in the EU financial sector. The Regulation also amends two sectoral regulations, on markets for financial instruments and on benchmarks, to regulate substantively and procedurally the new powers of ESMA in this area.

Delegated acts

During the year, a number of delegated regulations of the EC on the implementation of the main legislative acts were published. The package of delegated regulations implementing Regulation (EU) No 2015/2365 of the European Parliament and of the Council of 25 November 2015 on transparency of securities financing transactions and of reuse and amending Regulation (EU) No 648/2012 was also published.

2. Licensing activity, licensing regimes, notifications and certification

2.1. Licensing activity and licensing regimes

Investment Firms, Central Securities Depository, Investor Compensation Fund and regulated markets

In 2019, no licenses to operate as an investment firm (IF) were issued and revoked. During the reporting year, a refusal was given to issue a license to operate as an investment firm (Global Strategies AD). A decision has been issued to expand the subject of activity of IF ABV Investments AD with own account transactions under Art. 6, para. 2, items 3 and 6 of MFIA and two proceedings for extension of a license have been terminated at the request of the applicant. In 2019, one IF has given up part of the implemented investment activities and services, as a result of which its full license has become partial, but at the same time the IF has requested an extension of the license with the activity under Art. 6, para. 3, item 7 of MFIA.

In view of the above, at the end of 2019 the total number of investment firms is 59, incl. 21 banks¹⁶ and 38 non-bank investment firms. The number of investment firms (banks and non-banking institutions) with a full license (with the right to perform transactions and services in connection with financial instruments for own account) is 38, and the total number of investment firms with a partial license is 21 (20 of them with the possibility for holding client assets and 1 who does not have this right). As far as in 2019 one IF expands its license from partial to full and one IF reduces its license from full to partial, there is no difference in the total number of non-bank IFs and the distribution by types of licenses compared to 2018.

On 12.11.2019, the acquisition of Piraeus Bank Bulgaria AD by Eurobank Bulgaria AD was completed, as a result of which the number of banks providing investment activities and services decreased by one and as of 31.12.2019 is 21.

Table 1. Licensing activity in relation to IFs, CSD and regulated markets

	Number as at 31.12.2018	Licenses issued	Licenses revoked	Number as at 31.12.2019
Investment firms, including:	60	0	0	59*
Non-banking institutions*	38	0	0	38
Regulated market	1	0	0	1
Multilateral trading facility	2	0	0	2
Central securities depository	1	0	0	1

Notes: * The total number of IFs decreases as a result of the acquisition of Piraeus Bank Bulgaria AD by Eurobank Bulgaria AD
** *IFs which operate in Bulgaria through a branch under the conditions of freedom of establishment are not included in the total number of non-banking investment firms.

In 2019, **14 applications for approval of election of a member of a management or supervisory body** of an investment firms were considered, resulting in one refusal and 13 approvals. By Decision No. 506-H of 11 May 2018, the FSC adopted the Guidelines for assessment of the suitability of members of the Managing Authority and the persons holding key positions issued jointly by the European Banking Authority and the European Securities and Markets Authority of 30 June 2018. They specify the requirements for the

¹⁶The number of investment firm banks includes those that operate on the territory of the country through a branch.

assessment of suitability, including the collective competence of the management and supervisory bodies of the IFs introduced by MiFID II, which significantly complicated the procedures for approving the election of a member of a management or supervisory body of an investment firm. Notwithstanding the above, after the implementation of the new requirements by the FSC in practice in the second half of 2018, a reduction in the number of this type of proceedings in 2019 was not observed.

In 2019 **3 notifications for acquisition of qualified holdings of the capital or the votes in the general assembly of an investment firm were examined, resulting in one acquisition ban.** In this type of proceedings the Joint Guidelines on the prudential assessment of acquisitions and increases of qualifying holdings in the financial sector are applicable, which the FSC agreed to observe at its meeting on 11.07.2017. **6 notifications for transfer of qualified holdings were also examined.**

In 2019, 5 applications were submitted for **exemption under Art. 5, para. 1, item 10 of the MFIA.**

Of the total number of administrative procedures completed in 2019 in respect of investment firms, 5 are related to proceedings for the issuance or extension / reduction of a license to operate as an investment firm. Of the applications submitted in 2019 for extension of an IF license, one was completed in early 2020. In addition, four notifications for acquisition of a qualifying holding in an investment firm were submitted, the processing of which was terminated in early 2020 due to the cancellation of the stated intention. During the year under review, 13 approvals and 1 refusal to approve the election of a member of the management or supervisory body of an investment firm were issued.

Within 2019, five applications for entry of a tied agent in the register kept by the FSC were considered, and one of them resulted in refusal.

Regarding the activity of the Bulgarian Stock Exchange AD in 2019, 3 proceedings for approval of changes in the Regulations for the activity of the regulated market and 1 application for approval of a member of the Board of Directors of the Bulgarian Stock Exchange AD were considered.

In 2019, two applications for approval of a new member of the Management Board of the Investor Compensation Fund, one application for approval of changes in the Regulations and one for changes in the staffing schedule of the Fund were considered.

Following the licensing of Central Depository AD in accordance with 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 at the end of 2018, in 2019 an application for changes in the Regulations of the Bulgarian Central Securities Depository was considered.

Table 2. Administrative procedures with respect to IFs, tied agents, trading venues, data reporting service providers, central depositories and the Investor Compensation Fund

	Not concluded as at 31.12.2018	New in 2019	Concluded in 2019	Not concluded as at 31.12.2019
Investment firms	5	34	34	5
Tied agents	0	5	5	0
Regulated market	0	4	4	0
Multilateral trading facilities	0	0	0	0
Organized trading facilities	0	0	0	0
Central securities depository	0	1	1	0
Data reporting service providers	0	0	0	0
Investor Compensation Fund	1	3	4	0
Other proceedings*	3	35	36	2

Note: *Replies to inquiries and requested opinions in relation to the activities of investment firms, tied agents, trading venues, data reporting service providers and the CD.

Management companies, collective investment undertakings and alternative investment fund managers

In 2019, no applications for issuing a license to operate as a management company and applications for issuing a permit for organizing and managing a collective investment scheme were considered.

Within the reporting period **two permissions for transformation** of mutual funds were issued: of MC Alaric Capital AD for transformation through merger of MF Alaric Global Raw Materials into MF Alaric Hybrid Deposit and of MC DV Asset Management EAD for transformation through merger of MF DV Treasure into MF DV Balance. As a result of the described transformations, the number of mutual funds decreases by 2 MFs. At the end of 2019, DV Asset Management EAD also initiated proceedings for the issuance of a permit for transformation of MF Eurobond through a merger into MF Balance, which ended in early 2020. For the proceedings initiated by MC Asset Management EAD, it is specific that two MFs managed by the MC merge into the same MF, forming two classes of units of MF Balance, respectively Class A units (Harmony) and Class B units (Treasure). This type of transformation is carried out for the first time in Bulgaria and has a deadline of April 2020.

Additionally, in 2019 **two permits for termination** of the MF were issued - to MC Astra Asset Management AD of MF Astra Dynamic and to MC Karoll Capital Management EAD for MF Advance Conservative Fund. In 2018, a permit was issued to MC Alpha Asset Management EAD for termination of MF Digital Transformation; the procedure was completed in 2019 and the MF was removed from the registers kept by the FSC under Art. 30, para. 1 of the FSCA. By the end of the year, the procedure for termination of MF Astra Dynamic and MF Advance Conservative Fund, which have also been removed from the FSC registers, has been completed. As a result of the termination procedures in 2019, a total of 3 MFs were deleted. In 2019, no proceedings for main-feeder schemes were considered.

During the reporting period under review **one permit for organizing and managing a sovereign wealth fund** was issued - to the management company Expat Asset Management EAD for organization and

management of the sovereign wealth fund Expat Bulgaria Short SOFIX in the form of an open-ended national mutual fund (NMF) which is also an exchange traded fund. This is the first permit issued by the FSC for organizing an open-ended national mutual fund, as well as the first permit for an exchange-traded fund, which is not a collective investment scheme.

In early 2019, there was a strong interest in the registration of **alternative investment fund managers** (AIFM) under Art. 214 et seq. of the CISOU CIA, and 6 new AIFMs, which are not managing companies were registered during the year. The alternative investment funds organized by them are not subject to licensing proceedings before the FSC and are subject only to entry in the register kept by the FSC. Additionally, MC Expat Asset Management EAD was registered as an AIFM as a result of the issued permit for organization and management of the sovereign wealth fund Expat Bulgaria Short SOFIX.

In 2019, one application was submitted for the issuance of a license to operate as an AIFM, which was withdrawn after the first examination of the documents. In view of the above, the FSC has not issued licenses to AIFM.

Table 3. Licensing activity in relation to MCs, AIFMs and collective investment undertakings

	Number as at 31.12.2018	Issued licenses/ permits / registrations	Revoked licenses/ permits	Number as at 31.12.2019
Management companies	31	0	0	31
Contractual funds	132	0	5*	127
Alternative investment funds (AIFs)	3	1	0	4
Alternative Investment Fund Managers (AIFM)	4**	7	0	11

Notes: * The revoked permits are a result of transformation and / or termination of the MF. ** Three of the registered AIFMs are MCs that manage sovereign wealth funds and one AIFM is a self-managed sovereign wealth fund.

In 2019, 11 proceedings were considered for approval of a new member of the management body of **management companies**. In the reporting period, 3 notifications regarding the intention to transfer a qualifying holding in a management company and 2 notifications regarding the intention to acquire such holding were considered, and one ban on acquiring a holding in a MC was issued. One of the acquisition notifications and one of the transfer notifications were submitted in 2018 and were reviewed during the reporting period. In 2019, 4 more notifications were submitted regarding the intention to acquire a qualified holding in an MC, one of the proceedings was completed in early 2020, and the consideration of the other 3 was suspended in 2020 due to a declared change in intentions. In December 2019, 1 notification for transfer of qualified holding was submitted, which was reviewed in early 2020.

In addition to the above 8 administrative procedures for transformation, termination and deregistration of **mutual funds** in 2019, numerous proceedings were considered, related to approvals of changes to the rules of collective investment schemes under Art. 18 of the CISOU CIA. During the reporting period the procedures for issuing 60 approvals for changes to the rules for under Article 13, Paragraph 2 of the CISOU CIA, 42 approvals for changes of portfolio valuation rules and determination of the net asset value, 19 approvals for changes of risk assessment and management rules and 3 approvals for changes in the contracts for depository services and 5 approvals for the replacement of a depository bank were concluded.

In 2019, no applications for approval of changes under Art. 179 of the CISOU CIA for **sovereign wealth funds** were considered. A procedure for issuing an approval of a member of the board of directors of a close-ended national investment company according to 176, para. 2, in conjunction with Art. 93, para. 7 of the Collective Investment Schemes and Other Undertakings for Collective Investments Act.

During the reporting period, 7 proceedings for registration under Art. 214 of the CISOU CIA of **an alternative investment fund manager** were considered, as well as one application for a license to operate as an AIFM, which has been withdrawn.

Table 4. Administrative procedures in relation to MCs, AIFMs and collective investment undertakings

	Not concluded as at 31.12.2018	New in 2019	Concluded in 2019	Not concluded as at 31.12.2019
Management companies	2	19	16	5
Contractual funds	14	126	137	3
Sovereign wealth funds	0	1	1	0
Alternative investment fund managers	0	8	8	0
Other proceedings*	4	21	22	3

Notes: *Replies to inquiries and requested opinions on the activities of management companies and collective investment schemes, sovereign wealth funds and AIFMs.

Public companies, Special Purpose Investment Companies and other issuers of securities

In 2019, two new licenses were issued to special purpose investment companies - Finance Assistance Management SPIC and Compass Receivables Fund SPIC, which will securitize receivables. The main reason for this is that in the last few years there has been a movement in the receivables sector - after the stress tests of commercial banks, they reduce their risk exposures and get rid of their portfolios of bad / non-performing loans, which improves business opportunities of SPICs for securitization of receivables.

In 2019, no licenses were revoked of special purpose investment companies.

A total of 72 companies received a license to operate as special investment purpose companies. Of them, as at 31.12.2019, 13 have their licenses revoked and, respectively, at the end of 2019 – 59 companies have a license to operate as SPICs.

Table 5. Licensing activity with respect to SPICs

	Number as at 31.12.2018	Licenses issued in 2019	Licenses revoked in 2019	Number as at 31.12.2019
SPICs including:	57	2	0	59
SPICs for securitization of receivables	7	2	0	9
SPICs for securitization of real estate, including:	50	-	0	50
SPICs (agricultural land)	7	-	-	7

Irrespective of the public status of Special Purpose Investment Companies, given the exceptional nature of their object of activity aiming to maintain their nature of a securitization instrument, the special

purpose investment companies are subject to stricter regulatory requirements requiring prior approval by the FSC for changes in the articles of association and in the other statutory documents of the Special Purpose Investment Companies related to the replacement of the depository bank and the servicing company. In this sense, the main part of the administrative procedures regarding SPICs, apart from the procedures for issuing and revoking licenses, are related to requested approvals for amendment of the Articles of Association and for replacement of a depository bank and a servicing company of special purpose investment companies.

In relation to the activity of Special Purpose Investment Companies and the regulatory requirements for that activity, in 2019 the FSC reviewed and issued decisions on a total of 27 proceedings, considered as follows:

- **23 applications for issuance of an approval of amendments to the Articles of Association of Special Purpose Investment Companies**, under which the FSC issued 23 decisions for approval of the envisaged amendments to the Articles of Association;
- **Three applications for approval of the replacement of a servicing company**, under which the FSC has approved the planned replacement; and
- **One application for approval of the replacement of a depository bank of a Special Purpose Investment Company** under which one approval was issued respectively.

During the reporting year, no refusals were given to issue an approval of Articles of Association, to replace a servicing company or replace a depository bank of a special purpose investment company, and there was no termination of proceedings under such applications.

Other public companies (outside special purpose investment companies) and issuers of securities are not subject to licensing, but to entry or deregistration from the special register of public companies and other issuers of securities kept by the FSC. In 2019, 4 public companies (excluding SPICs) were entered in the said register - PHARE AD; Green Town Projects AD, Port Fleet - Burgas AD and Telelink Business Services Group AD, as well as 5 issuers of securities - Development Assets EAD, VF Alternative AD, Solar Logistics EAD, Bulgarian Airways Group EAD and Ustrem Holding AD, respectively during the period the companies deregistered from the register of public companies and other issuers of securities kept by the FSC are a total of 4¹⁷, of which 3 public companies and 1 issuer of securities.

It should be borne in mind that during the reporting year four more companies were deregistered from the register kept by the FSC - two special purpose investment companies, whose licenses to operate as a special purpose investment company were revoked during the previous reporting period and whose liquidation proceedings have been completed and respectively the companies have been deleted as traders from the commercial register at the Registry Agency, have been deregistered as public companies. Two more special investment purpose companies, whose licenses to operate as a special purpose investment company were revoked during the previous reporting period, and which were declared bankrupt by the Sofia City Court, have also been deregistered as public companies.

During the reporting 2019, there were no rejections to enter or delete a public company or an issuer of securities from the register of public companies and other issuers of securities kept by the FSC.

¹⁷ The total number of 4 deregistered companies (public companies and issuers of securities) does not include four SPICs, which during the period were deregistered as public companies ex officio.

The total number of public companies (excluding SPICs) and the other issuers of securities registered as at the end of 2019 was 249.

Table 6. Public companies and other issuers of securities

	Number as at 31.12.2018	Registered companies	Deleted companies	Number as at 31.12.2019
Public companies and other issuers*	244	9	4***	249**

Notes: * The number of public companies and other issuers does not include collective investment schemes. Public companies and other issuers are not licensed as such, but are subject to registration and deregistration. ** The number of public companies and other issuers does not include 13 special purpose investment companies, which have revoked SPIC licenses, but still have the status of public companies. *** The total number of 4 deregistered companies (public companies and issuers of securities) does not include - four SPICs deregistered as public companies, of which 2 SPICs due to being deleted as traders from the Commercial Register at the Registry Agency, and 2 SPICs due to the fact that they have been declared bankrupt by decisions of the Sofia City Court. Due to these circumstances, these four SPICs are not included in the initial number of 244 as at 31.12.2018 and accordingly they are not reflected in the total number of 249 as at 31.12.2019.

With regard to the activity of public companies and issuers of securities in 2019, apart from the proceedings for registration (9) and deletion (4) of public companies and issuers, a total of 48 proceedings for confirmation of prospectuses and supplements thereto were started. During the reporting year, the trend for stable growth of applications filed for the issue of approvals of prospectuses noted during previous period continued.

The applications for approval of prospectuses for initial public offering of securities, respectively for admission of securities to trading on a regulated market submitted in 2019 were 47, and in 2018 they were 41.

In 2019, a total of 33 prospectuses were confirmed - one more than the previous year, when the confirmed prospectuses were a total of 32. During the reporting period, 2 supplements to approved prospectuses were approved - one prospectus for initial public offering of shares and one prospectus for admission to trading on a regulated market of shares.

The structure of the 33 prospectuses approved in 2019 is as follows:

- **a total of 22 prospectuses for initial public offering of shares**, of which 4 of new companies and
- **a total of 11 prospectuses for admission to trading on a regulated market**, of which eight prospectuses for admission for trading on a regulated market of bond issues and three prospectuses for admission to trading on a regulated market for issues of shares.

Furthermore, during the year considered, the FSC also issued a total of four refusals to approve prospectuses, of which two refusals for approval of a prospectus for initial public offering of shares and two refusals for approval of prospectuses for admission to trading on the regulated market of bonds.

Additionally, in 2019, 1 procedure for confirmation of a prospectus for initial public offering of preferred shares was terminated.

In the reporting year 2019, 3 proceedings for confirmation of prospectuses were suspended - 2 proceedings for confirmation of a prospectus for initial public offering of shares and 1 proceeding for confirmation of a prospectus for admission to trading on a regulated market of bonds due to other proceedings that have prejudicial significance in respect of applications for confirmation of prospectuses.

At the end of the year, there were nine pending proceedings for approval of prospectuses – 1 proceeding for admission to trading bond issues and 5 proceedings for initial public offering of shares.

Aside from the approved prospectuses for initial public offering of securities (respectively after successful subscription and entry of the capital increase in the commercial register) or for admission to trading on a regulated market of securities, in 2019 a total of 36 issues of securities were entered in the FSC register, distributed as follows:

- **twenty-eight issues of shares were entered, six of which by new companies** admitted to trading on a regulated market for the first time, and the other 22 issues as a result of a subsequent increase in the capital of public companies;
- **eight bond issues were entered** as a result of the approval of a prospectus for admission to trading on a regulated market of the bonds issued under the terms of initial private offering within the meaning of the Commercial Act.

During the reporting year, a total of 11 issues of securities, (seven issues of shares and four bond issues) were deleted from the register of public companies and other issuers of securities, kept by the FSC.

In 2019 there were no refusals to delete an issue of securities from the register kept by the FSC due to refusal to delete the public company or issuer of the securities, and no such proceedings were terminated.

In 2019, a total of 11 proceedings on registered tender offers and offers for purchase of shares were considered and completed. With regard to the tender offers and purchase offers considered in 2019, the following decisions have been issued:

- **for 9 proposals, the FSC issued decisions on a temporary ban on the publication of proposals** for which after the submission of the corrected documents it decided not to issue a final ban on their publication;
- **1 final ban was issued** for the publication of a tender offer and
- **1 proceeding was terminated**, due to the circumstance that after the imposition of the temporary ban on publication of the tender offer, the tenderer has not eliminated the established incompleteness, respectively has not submitted the required documents, due to which the administrative body has terminated the proceedings.

The total number of registered offers in 2019 is 11, of which 10 tender offers and 1 offer for repurchase of shares. As at 31.12.2019, no proceedings have been initiated for consideration of tender offers and those for purchase of shares, which have not been completed by the end of the year.

During the reporting year no proceedings were initiated for approval of transformation documents with the participation of public companies. As at the end of 2019, there are no transformation proceedings with the participation of public companies that have not been completed. In 2019, no decisions have been issued for inclusion of an auditor in the list of independent auditors, approved by the Deputy Chairperson of the FSC in charge of the Investment Activity Supervision Division and no refusals or terminated proceedings for approval of documents for transformation with participation of public companies.

Table 7. Administrative procedures with respect to SPICs, PCs and other issuers

	Not concluded as at 31.12.2018	New in 2019	Concluded in 2019	Not concluded as at 31.12.2019
SPICs	0	2	2	0
PCs and issuers	17	123	131	9
Other proceedings*	5	20	25	0

Notes: *The replies to inquiries, opinions on complaints and other issues related to the activities of public companies and issuers were reported as other proceedings in 2019.

Insurance and reinsurance

In 2019, the licensed insurance companies based in the Republic of Bulgaria are **36 (thirty-six)**, the non-life insurers are **25 (twenty-five)**, life insurers are **11 (eleven)**, and **1 (one) company** is a reinsurer for non-life and life insurance.

In the end of the reporting period, **the FSC revoked the license of one of the non-life insurers - Insurance Company Euroamerican AD**, imposing a ban on the free disposal of assets until the beginning of liquidation or insolvency proceedings, a ban on the conclusion of new insurance contracts for all classes of insurance for a period of 6 months from the date of issuance of this decision and appointed a conservator to IC Euroamerican AD, until the appointment by the court of a receiver or registration of a liquidator of the company.

During 2019 the **FSC did not issue licenses** to new companies based in the Republic of Bulgaria or to branches of insurers from third countries to carry out insurance activity in the country. At the end of the reporting period **4 (four) applications** were received by the FSC from already licensed insurance companies for **expanding the scope of the licenses issued to them** for insurance activity, as follows:

- **issuance of an additional license to BAEZ EAD in the insurance class Guarantees**, according to Annex No 1, Section II, letter A of the IC;

- **supplementing the issued license of Groupama Insurance EAD for insurance class Land vehicles (excluding railway rolling stock) with a new risk Any damage or loss caused to land vehicles other than motor vehicles”;**

- **issuance of an additional license to IC Euroamerican AD for the following insurance classes:** Accident insurance, supplementing the license under the Sickness insurance class with additional risk - fixed amounts of money, Cargo during transport insurance, Fire and natural disasters insurance, Property damage insurance, Miscellaneous financial losses insurance and legal expenses insurance;

- **issuance of an additional license to EIG Re EAD for the following insurance classes:** Vessel insurance (sea, lake, river and canal vessels) - any damage or loss to river and canal vessels, lake vessels and sea vessels, Guarantees insurance - direct guarantees and indirect guarantees.

In 2019, the insurers domiciled in an EU Member State, performing non-life insurance activity on the territory of the Republic of Bulgaria under the conditions of the right of establishment (through a branch), are a total of **10 companies**, including Olympic Insurance Company - Branch Bulgaria. Insurers domiciled in a Member State carrying out life insurance business on the territory of the Republic of Bulgaria under the right of establishment (through a branch) are **3 companies**.

With regard to Olympic Insurance Company AD, on 23.08.2019, in the official gazette of the Republic of Cyprus was published an excerpt from the Decision of 30.07.2019 of the District Court in Nicosia, Republic of Cyprus for **opening of liquidation proceedings** for Olympic Insurance Company AD as an insurer with revoked license. With this decision two joint liquidators of the insurance company were appointed - Mr. Pavlos Nacouzi and the Official Receiver of the Republic of Cyprus. The liquidation proceedings of Olympic Insurance Company AD, its legal consequences, as well as the powers and functions of the joint liquidators are governed by the national law of the Republic of Cyprus, which should be interpreted and applied by the competent authorities and courts in Cyprus, in accordance with the Solvency II Directive. The information available in the FSC regarding the liquidation proceedings of Olympic

Insurance Company AD is published on the FSC website in accordance with the notifications received from the Insurance Supervisory Authority in the Republic of Cyprus. Information about the open production is also published on the website of the Bulgarian branch of Olympic Insurance Company AD.

Table 8. Licensing activity in relation to insurance and reinsurance

	Number as at 31.12.2018	Licenses issued	Licenses revoked	Number as at 31.12.2019
Insurers including:	36		1*	35
Non-life insurance	25	-	1*	24
Life insurance	11	-	-	11
Branch of a foreign insurance company	13	-	-	12**
Non-life reinsurance companies	1	-	-	1***
Life reinsurance companies	1	-	-	1***
Insurance brokers	350	10	25	335

Notes: * With a Decision of the FSC No 1309-O3 dated 17.12.2019 the license of ZK Euroamerican AD was revoked. ** With a Decision of 30.07.2019 of the District Court in Nicosia, Cyprus, published on 23.08.2019 in the Official Gazette of the Republic of Cyprus, liquidation proceedings were opened against Olympic Insurance Company AD. *** GP Reinsurance EAD.

In 2019, the FSC issued **one decision approving acquisition of qualified holding** in the capital of an insurance company licensed by the FSC, with which it approved the direct acquisition by Groupama Life Insurance EAD of 100% qualified holding in the capital of IC Express Life Insurance AD. At the end of 2019, an application was received also for **transformation through merger** of Groupama Life Insurance Express EAD in Group Life Insurance EAD.

At the end of the reporting period, an application was received from Uniqa International AG, Austria, regarding **an increase in the qualified holding** in the capital of IC Uniqa AD.

In 2019 **2 approvals of reorganization of the capital structure** of insurance companies under Regulation (EU) No 2015/35 were issued, as follows:

- approval of the requested reorganization of the capital structure of **Insurance Company EIG Re EAD**, by payment within the meaning of Art. 71(2) of Regulation (EU) No 2015/35 of a position of the company's own funds, constituting paid-in subordinated liabilities, within the meaning of Art. 69 (B) of the Regulation (EU) No 2015/35, classified as tier one limited funds, according to Art. 9, para. 1 of Ordinance No 51, in the amount of BGN 600,000 in a position from the main own funds of the company, constituting paid-in ordinary share capital within the meaning of Art. 69 (A) (I) of the Regulation (EU) No 2015/35, which is classified as unlimited tier one funds;

- approval of the requested reorganization of the capital structure of **Insurance Company Euroins Life EAD**, by payment within the meaning of Art. 71(2) of Regulation (EU) No 2015/35 of a position of the company's own funds, constituting paid-in subordinated liabilities, within the meaning of Art. 69 (B) of the Regulation (EU) No 2015/35, classified as tier one limited funds, according to Art. 9, para. 1 of Ordinance No 51, in the amount of BGN 1,250,000 in a position from the main own funds of the company, constituting paid-in ordinary share capital within the meaning of Art. 69 (A) (I) of the Regulation (EU) No 2015/35, which is classified as unlimited tier one funds;

During 2019 by decision of the FSC, there were **10 insurance brokers** entered in the register kept by the FSC pursuant to Article 30, para 1, item 12 of the FSCA. For the same period there were **25 deleted**

insurance brokers either at their request, or because they have ceased to meet the conditions for carrying out insurance intermediation activity, or have not fulfilled their obligation to pay their monetary obligations in connection with their activity as insurance brokers. As at 31.12.2019, there were **a total of 335 insurance brokers** entered in the register kept by the FSC pursuant to Article 30, para 1, item 12 of the FSCA.

During the reporting period, the trend of decreasing the number of insurance agents continued. At the end of the year there were **a total of 7 759 insurance agents, entered** in the register of the FSC, including. **2 612** insurance agents - legal entities, **251** sole proprietors insurance agents and **4 865** insurance agents individuals, **30** insurance intermediaries with additional activity - legal entities and one insurance intermediary with additional activity - natural person. Compared to 2018, the number of insurance agents at the end of 2019 decreased, with the highest decline observed in registered individuals.

Table 9. Registration in the register of insurance agents

	Number as at 31.12.2018	Number as at 31.12.2019
Insurance agents*, including:	8427	7759
Legal entities	2782	2612
Sole traders	344	251
Natural persons	5301	4865

Notes: Insurance agents are not licensed but are subject only to registration in the register of insurance agents.

A **total of 175** decisions were issued under licensing, authorization, registration and approval regimes in 2019 in connection with the administrative proceedings initiated before the FSC under the IC and the regulations for its implementation:

- **1** decision for approval of the direct acquisition of a qualifying holding in the capital of an insurer;
- **1** decision to revoke the license of an insurance company;
- **3** decisions for application of regulatory regimes to insurers with revoked license;
- **2** decisions for approval of reorganization of the capital structure of insurance companies;
- **34** decisions approving members of management or supervisory bodies, executive directors or procurators of insurers and reinsurers;
 - **10** decisions for approval of persons performing key functions in an insurer or reinsurer;
 - **3** decisions to refuse the approval of members of management or supervisory bodies or persons exercising key functions in an insurer or reinsurer;
 - **3** decisions on application of regulatory regimes to the Guarantee Fund;
 - **37** decisions for approval of auditors for inspection and certification of the financial statements of insurers, reinsurers or insurance holdings;
- **1** decision to refuse to provide an administrative service in connection with the approval of auditors;
 - **10** decisions for entry of insurance brokers;
 - **1** decision for entry of an insurance agent with an insurer from another Member State;
 - **25** decisions for deletion of insurance brokers;
 - **31** decisions for deletion of insurance agents.
 - **1** decision for recognition of professional qualification of an insurance broker;

- 12 decisions of the FSC for registration of organizations conducting professional training of insurance brokers and training programs.

Table 10. Administrative procedures in respect of insurance and reinsurance

	Not concluded as at 31.12.2018	New in 2019	Concluded in 2019	Not concluded as at 31.12.2019
Insurance companies	14	104	100	18
Insurance intermediaries	9	64	68	5
Other proceedings	0	21	15	6
Total	23	189	183	29

Note: Number of administrative procedures under the IC that ended with issue of an individual administrative act of the competent authority.

Supplementary pension insurance

During the reporting year 2019 there were no applications for issue of licenses and for transformation of pension insurance companies and/or supplementary pension funds, for voluntary winding-up of existing companies, and the FSC did not establish grounds to withdraw issued pension licenses.

In view of the above, the **number of licensed pension insurance companies (PIC) at the end of 2019 was nine, and the number of supplementary pension funds (SPF) was 29, including nine universal, nine occupational, nine voluntary and two voluntary pension funds under occupational schemes, and as at 31.12.2019 one of them was not active.**

Table 11. Licensing activity in relation to supplementary pension insurance

	Number as at 31.12.2018	Licenses issued	Licenses revoked	Number as at 31.12.2019
Pension insurance companies (PICs)	9	-	-	9
Supplementary pension funds (SPFs)	29	-	-	29

The implementation of preliminary supervision covers the implementation of individual actions, incl. the approval or confirmation of various documents of fundamental importance for the activity of PICs and the pension funds managed by them. Some of the proceedings related to the permit and approval regimes within the competence of the administrative body are initiated at the request of the persons obliged under the regulations, while other proceedings are carried out ex officio by the supervisory body.

In this regard, and in view of the adopted amendments to the SIC and its implementing acts, as well as the obligation for pension insurance companies to bring their activities in line with them, **during the reporting year, 47 decisions were issued for approval of regulations and amendments to the regulations for the organization and activity of SPFs.**

During 2019 a total of **nine proceedings were initiated for preliminary coordination of selection of auditors** to perform audit and certification of the annual financial statements for 2019 of PICs and the pension funds they manage, and as a result, the administrative authority issued nine decisions to agree on the choice of proposed auditors.

Pursuant to Art. 121d, para. 10 of SIC and in connection with § 156, para. 1 of the TFP of the Act to amend and supplement the SIC, in 2019 **a total of 112 administrative proceedings** were examined, of which 13 (thirteen) were formed at the end of 2018, **on which the FSC has issued 84 decisions for approval of members of management and supervisory bodies of PICs.**

During the reporting year, 177 administrative proceedings were initiated for inclusion of independent external experts, who for the purposes of the performed supervision perform financial audit, actuarial inspection, assessment of assets, assessment of management system or of its separate functions in the lists under Art. 7, para. 1 of Ordinance No 64 of 29.11.2018 for the requirements to the persons under Art. 344, para. 2, item 2 of the SIC and the procedure and manner for their appointment, according to which the administrative body has issued 177 decisions.

In 2019, 8 proceedings were initiated for approval of biometric tables for determining the amount of the supplementary lifetime old-age pension from the universal pension fund in connection with changes in the SIC. As a result, 8 decisions of the competent authority for approval of biometric tables of universal pension funds, submitted by the pension insurance companies managing them, have been issued.

During the reporting year, 5 proceedings were initiated for approval of a technical interest rate for determining the amount of pensions from SPFs, claimed by the PICs which manage them. As a result, 5 decisions of the competent authority for approval of the technical interest rate of 4 universal and 1 occupational pension funds were issued.

In 2019, 8 official proceedings were initiated to determine the minimum return on the management of the assets of the supplementary mandatory pension funds, as a result of which 4 decisions of the competent authority for determining the minimum return of the universal pension funds and 4 decisions of the competent authority for determining the minimum return of occupational pension funds were issued.

According to the mandate of the Deputy Chairperson of the FSC in charge of the Social Insurance Supervision Division, in 2019 one decision was issued for approval of the technical interest rate and the biometric mortality tables to be used for the calculation of the pension reserves as at 31.12.2019 by the PICs managing a universal pension fund and/or a supplementary voluntary pension fund.

In 2019, a review was carried out of the documents submitted in connection with § 155 of the TFP of the Act to amend and Supplement the SIC by the companies and the custodian banks, certifying compliance with the effective changes in SIC and its implementing acts, and of other documents submitted by the PIC which, although not subject to approval, are checked for legality. In case of discrepancies in their content, their elimination is required.

Table 12. Administrative procedures regarding supplementary pension insurance

Object of the procedure	Not concluded as at 31.12.2018	New in 2019	Concluded in 2019	Not concluded as at 31.12.2019
Approval of regulations / amendments and supplements to regulations for the organization and activity of SPFs	10	37	47	-
Approval of members of management and supervisory bodies of PICs	13	99	112	-
Lists of independent	-	177	177	-

external experts who, for supervisory purposes, perform financial audits, actuarial audits, asset valuations, management system assessments or individual functions				
Coordinating the selection of auditors to audit and certify the annual financial statements	-	9	9	-
Approval of biometric tables for determining the amount of the pension	-	8	8	-
Approval of technical interest rate for determining the amount of the pension	-	5	5	-
Proceedings initiated ex officio	-	9	9	-
Total for pension insurance companies	23	344	367	-

2.2. Notifications

In **2019 133 notifications were received from IFs from EU Member States** who intend to operate on the territory of the Republic of Bulgaria under the conditions of **free provision of services**, including through a tied agent established in another Member State (UK - 51, Cyprus - 14, Ireland - 16, Netherlands - 11, France - 6, Malta - 4, Spain - 2, Luxembourg - 8, Germany - 15, Italy - 1, Finland - 1, Portugal - 1, Romania - 1, Sweden - 1, Hungary - 1). In relation to Brexit, there has been a reduction in the number of notifications from the UK, as well as a number of inquiries about the status of IFs, which have already been notified by the competent authorities of that Member State. On the other hand, **77 IFs have ceased their passports** for provision of investment activities and services on the territory of the Republic of Bulgaria under the conditions of free provision.

During the year under review **1 notification** was received from an IF from Germany, regarding their intention to carry out activity on the territory of the Republic of Bulgaria **by establishing a branch**, the proceedings on which were terminated in the reporting period. **Three other notifications** were received for terminating open proceedings for the establishment of a branch and **1 for the use of a tied agent** on the territory of the Republic of Bulgaria by IF from a Member State (Cyprus). During the period **1 notification was received for the closure of a branch**, established on the territory of the Republic of Bulgaria by an IF from Cyprus, as the branch has been deleted from the register kept by the FSC.

Fourteen notifications have been received establishing measures to facilitate access to multilateral trading facilities (MTFs) or organized trading facilities (OTFs) (Netherlands - 3, France - 6, Italy - 1, Ireland - 4). During the period **2 notifications** were received from Cyprus **for the establishment of a representative office** on the territory of the Republic of Bulgaria.

In view of the above, the total number of IFs from Member States that can operate in our country **at the end of 2019 was 1953** (without the representative offices).

During the reporting year **21 notifications were received from management companies** from EU Member States in connection with their intention to **offer units of 146 classes of securities from 55 funds / sub-funds of 8 collective investment schemes from Member States** on the territory of the Republic of Bulgaria. For the same period **3 notifications were received for termination of the offering of a total of 7 classes of securities of 3 sub-funds of 3 collective investment schemes from Member States**, with which by the end of 2019 **the total number** of the offered classes of securities of collective investment schemes from Member States, which operate in our country, **is 1106 classes of securities of 317 funds / sub-funds of 45 collective investment schemes from Member States.**

Five notifications from management companies from a Member State intending to operate on the territory of the Republic of Bulgaria under the terms of free provision of services were received in 2019 and thus the **total number of management companies** from Member States intending to operate in Bulgaria at the end of 2019, **was 25.**

No notifications from a management company from a Member State to operate on the territory of the Republic of Bulgaria through the establishment of a branch was received in 2019.

15 notifications from AIFMs from EU Member States that intend to operate on the territory of the Republic of Bulgaria were received in 2019 and none terminated their passport, and thus the total number of AIFMs from Member States intending to operate in Bulgaria at the end of 2019 was 72.

In 2019, 17 notifications were received in connection with the offering of 21 **alternative investment funds (AIF)** from EU Member States on the territory of the Republic of Bulgaria. At the same time, 11 alternative investment funds have ceased their passports, bringing the total number of AIF from member states offered in Bulgaria at the end of 2019 to 100.

In 2019, 17 notifications were received in connection with the offering of **17 European venture capital funds (EuVECA)** from an EU Member State on the territory of the Republic of Bulgaria, by which the total number of EuVECA funds from Member States offered in Bulgaria at the end of 2019 was 31.

In 2019, 1 notification was received and reviewed by the National Bank of Belgium regarding the free provision of services on the territory of the Republic of Bulgaria by **central securities depository Euroclear Bank SA, Belgium**, whereby the total number of central depositories from Member States that intend to operate in Bulgaria by the end of 2019 is 3.

During 2019, the FSC received a **total of 30 notifications** under Article 18 of the revoked Prospectus Directive, **10 of which** were notifications of **new prospectuses**, and **20 notifications concerned supplements** to basic prospectuses.

In 2019 the Commission received notifications about **36 insurance companies from EU and EEA Member States** about their intentions to operate on the territory of the Republic of Bulgaria under the terms for freedom to provide services.

During the reporting period, the FSC received notifications for **27 insurance companies from EU and EEA Member States** regarding their intention to cease their operation in the Republic of Bulgaria.

At the end of 2019, a **total of 640 insurance companies from EU and EEA Member States** had stated their intentions to operate on the territory of the Republic of Bulgaria.

During the reporting period, the Commission received notifications about **187 insurance intermediaries from EU Member States** regarding their intention to operate as insurance intermediaries on the territory of the Republic of Bulgaria under the terms of the right of establishment and freedom to provide services.

In 2019, the FSC received notifications for **64 insurance intermediaries from the EU and EEA Member States** stating their intention to cease their insurance intermediation operations in the Republic of Bulgaria.

At the end of 2019, a **total of 2603 insurance intermediaries from the EU and EEA Member States** have stated their intentions to operate as insurance intermediaries on the territory of the Republic of Bulgaria under the terms of the freedom to provide services and right of establishment.

Table 13. Notifications of foreign companies intending to operate on the territory of the Republic of Bulgaria

	Number as at 31.12.2018	New and concluded in 2019	Terminated in 2019	Number as at 31.12.2019
Investment firms	1884	147	78	1953
Management companies	20	5	0	25
Collective investment schemes (classes)	967	146	7	1106
Alternative investment scheme managers	57	15	0	72
Alternative investment funds	90	21	11	100
European Venture Capital Funds (EuVECA)	14	17	0	31
Central securities depositories	2	1	0	3
Insurance companies	631	36	27	640
Insurance intermediaries	2480	187	64	2603
Institutions for occupational retirement provision	-	-	-	-

In 2019 **66 notifications from 6 Ifs licensed by the FSC were considered regarding their intention to operate under the terms of free provision of services, without opening a branch**, on the territory of other Member States (Austria - 3, Belgium - 2, Croatia - 2, Cyprus - 3, Czech Republic - 2, Denmark - 3, Estonia - 2, Finland - 3, France - 2, Germany - 2, Greece - 2, Hungary - 2, Ireland - 3, Italy - 3, Latvia - 2, Lithuania - 2, Luxembourg - 3, Malta - 3, Netherlands - 2, Poland - 2, Portugal - 2, Romania - 2, Slovakia - 2, Slovenia - 2, Spain - 3, Sweden - 2, Great Britain - 3, Liechtenstein and Iceland). In the period, initiated proceedings on notifications for 29 countries were suspended until the completion of an open inspection of the Ifs' activity and depending on its results, as in the reporting period the proceedings were resumed and the notifications were sent. During the period, the notification proceedings initiated in the previous year were completed.

No notifications from Bulgarian investment firms about establishing a branch in the territory of another Member State or about closing a branch of a Bulgarian IF on the territory of another Member State were received in 2019.

During the period the FSC has received **1 notification** from an IF **to operate in the UK, through a tied agent** established in the United Kingdom.

In 2019 **2 notifications** were received by management companies from the Republic of Bulgaria for carrying out activity on the territory of other Member States under the conditions of free provision of services, for offering **3 CISs from the Republic of Bulgaria** on the territory of Germany, which ended in early 2020.

The FSC has not licensed AIFM so far, in view of which there is no Bulgarian AIFM that can send notifications applicable to AIF in this capacity, managed by it.

To date, Central Depository AD has not initiated a notification for the provision of services in other Member States in its capacity as a central securities depository licensed by the FSC.

During the reporting period, the Financial Supervision Commission registered for approval a prospectus for securities issued in the Republic of Bulgaria for their admission to trading on foreign markets - a prospectus for admission to trading on a regulated market in the European Union (Irish Stock Exchange) of a bond issue, issued by Holding Nov Vek AD, city of Sofia, and in the proceedings, the FSC has refused to confirm the prospectus.

In 2019, notifications were sent regarding the intent of **insurance companies based in the Republic of Bulgaria** to operate or cease to operate in the territory of other EU Member States, as follows:

- In January, a notification was sent regarding the intention of Life Insurance Institute AD to expand its activities under the freedom to provide services to the territory of Poland.
- In February, a notification was sent regarding the intention of IC LEV INS AD to expand its activities under the freedom to provide services to the territory of Greece, Norway, Poland, Romania and France.
- In June, a notification was sent to the competent authorities of the EU Member States for the withdrawal of the notification of IC Armeec for carrying out activities on the territory of all EU Member States under the conditions of freedom to provide services or the right of establishment.
- In July, a notification was sent regarding the intention of IC OZK-Insurance AD to operate on the territory of the Republic of Italy under the conditions of the freedom to provide services.
- In August, a notification was sent regarding the intention of Euroins AD to expand the scope of its activity in the Republic of Malta.
- In August, a notification was sent regarding the intention of EIG Re EAD to carry out insurance activities on the territory of the Hellenic Republic.
- In October, a notification was sent to the competent supervisory authority regarding the intention of Groupama Insurance EAD to operate under the conditions of the freedom to provide services on the territory of the Republic of Romania.
- In October, a notification was sent to the competent authorities of France, Germany and Belgium regarding the intention of IC DallBogg Life and Health AD to carry out activity under the conditions of the freedom to provide services on the territory of the indicated Member States.
- In December, a notification was sent regarding the intention of IC DallBogg: Life and Health AD to expand its activities in the territory of the Kingdom of Spain under the conditions of freedom to provide services.

In 2019, notifications were sent for **six insurance intermediaries based in the Republic of Bulgaria** regarding their intention to operate in the territory of other EU Member States. In regard to **one insurance intermediary** the Commission refused to send a notification: by Decision No 709-3A of 23.05.2019 the FSC refused to send to the relevant competent authority a notification regarding the intention of the insurance agent RECREX CONSULTING EOOD to carry out insurance intermediation activities on the territory of the Republic of Romania. During the reporting period, the FSC received no notifications regarding **insurance intermediaries based in the Republic of Bulgaria** regarding their intention to cease their operations in the territory of other EU Member States.

Table 14. Notifications of Bulgarian companies intending to operate on the territory of other Member States

	Number as at 31.12.2018	New in 2019	Terminated in 2019	Number as at 31.12.2019
Investment firms	210	67*	0	277
Management companies	3	2**	0	3
Collective investment schemes	12	3**	0	12
Prospectuses	4	1	1	4
Insurance companies	16	3	1	18
Insurance brokers	41	6	1	46
Institutions for occupational retirement provision	-	-	-	-

Note: * The number includes notifications for 29 countries, for which the proceedings have been suspended countries, as well as 1 notification for the use of a tied agent established in another Member State. ** Two proceedings of 2 MCs for 3 CIS have been initiated, but have not been completed in 2019.

No notifications by institutions for occupational retirement provision from EU Member States intending to operate on the territory of the Republic of Bulgaria as well as no notifications of local pension insurance companies intending to operate in the territory of the EU were received in 2019.

2.3. Certification

In 2019, one session of exams to acquire the right to operate as a financial instruments broker and an investment consultant was conducted - on 23.11.2019 for financial instruments brokers and on 24.11.2019 for investment consultants. A total of 78 persons were allowed to take the exam, of which 35 candidates were taking the exam for the acquisition of the right to operate as a financial instruments broker and 43 candidates were taking the exam for the acquisition of the right to operate as an investment consultant. The exams were passed by a total of 30 persons (17 for brokers with 30 candidates actually attending the exam, and 13 for investment consultants with 32 candidates actually attending the exam). The 30 persons who passed the exam were issued certificates.

In addition, in 2019, 10 certificates were issued as a result of a recognized capacity to operate as an investment consultant. In the reporting 2019 no refusals were issued to recognize the acquired qualification to operate as an investment consultant.

In 2019, there were no proceedings for revoking the right of persons to act as a financial instruments broker or an investment consultant, neither after their voluntary refusal nor on the initiative of the supervisory authority.

In 2019, one decision of the FSC was adopted for the recognition of the professional qualification of an insurance broker acquired in an EU Member State.

In connection with the initiated administrative proceedings for recognition of legal capacity of a responsible actuary during the reporting year, a decision for termination of the initiated proceedings was issued in the Social Insurance Supervision Division.

Table 15. Dynamics of certified persons

	2015	2016	2017	2018	2019
Investment consultants	19 (11)	14 (5)	31 (21)	14 (9)	23 (13)
Securities brokers	(7)	5 (6)	(14)	(45)	(17)
Insurance brokers	8 (13)	-	1	-	1
Actuaries	1	1	2	-	-

Note: The table shows the total number of persons who acquired the right to perform the activity determined by law during the respective year, and in brackets are marked the persons who received the legal capacity in question after passing an exam at the FSC. The change in the number of persons possessing the respective qualification includes both the permits for carrying out activity issued and revoked during the reporting period.

3. Supervisory activity

3.1. Off-site supervision

Investment firms, central securities depository and regulated markets

Off-site supervision is an independent part of the supervisory activity, which involves analysis of information received by the FSC. This enables the constant monitoring and periodical evaluation the status of the supervised entities and their performance. The aim is to achieve regular monitoring for regulatory compliance by investment firms (IFs) and in particular the evaluation of each investment firm's financial status, as well as the legality of their activities. The received information allows the supervisory authority to respond in a timely manner to emerging problems and non-compliance with the regulatory requirements in order to achieve the statutory goals of the regulator – protection of the interests of investors and users of the provided services and ensuring transparency and awareness for participants on the market. 15402 inspections were carried out in during the reporting period, including 152 inspections on the financial position of the investment brokers in accordance with forms approved on the basis of Art. 70, para. 2 of Ordinance No. 50 of 19.06.2015 on capital adequacy, the solvency of investment firms and the supervision of their compliance (Ordinance No. 50), 672 inspections of the held clients assets divided into subject and not subject to compensation from the Investor Compensation Fund, 13349 inspections of the transactions concluded with financial instruments admitted to trading on a regulated market, 444 inspections on capital adequacy and solvency of investment firms in accordance with the requirements of Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No. 648/2012. At the same time, in the course of the off-site supervision, 57 reports on the results of the risk monitoring were received and verified according to the requirements of Art. 80a of Ordinance No. 38 on the requirements for the activity of investment firms.

In the reporting period were also reviewed and analyzed 653 notifications received under Art. 19 of Regulation (EU) No. 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse.

During the reporting period, 132 inspections due to complaints, reports and inquiries from natural persons, legal entities and government authorities were carried out. Most of the cited complaints were filed by foreign entities and were directed against companies and/or websites/platforms for trading in financial instruments that did not have a license to conduct investment intermediation activities, which was subject to investigations by law enforcement agencies, so signals were prepared and sent to them.

In 2019, the Financial Supervision Commission made a decision based on Art. 281, para. 1 and 2 of the Markets in Financial Instruments Act (MFIA) for disclosure by publishing on its website a list of websites through which investment services are offered by persons who are not entitled to provide such on the territory of the Republic of Bulgaria, as well as for sending a request to the Chairperson of the Sofia District Court to order all enterprises providing public electronic communications networks and / or services to suspend access to such explicitly mentioned websites.

During the period under review, orders were issued for entering 1224 circumstances regarding the activities of investment firms, investment consultants and brokers and Bulgarian Stock Exchange AD.

During the reporting period, a circular was sent to all investment firms to identify significant investment firms, as required by Art. 13 of Ordinance No. 50 on the capital adequacy and solvency of

investment firms and on the identification of investment firms subject to consolidated supervision pursuant to Part Three, Section One “Supervision on a Consolidated Basis” of the Markets in Financial Instruments Act.

In connection with the introduction of a risk-based approach to the assessment of the risk of money laundering and terrorist financing in the implementation of specialized supervision over the prevention of money laundering and terrorist financing to investment firms and credit institutions offering investment services, a circular letter concerning the provision of statistical information related to the performed activity and filling in a self-assessment questionnaire.

In connection with changes in the XML scheme of the submitted transactions according to Art. 26 of Regulation (EU) No 600/2014 of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Regulation (EU) No 648/2012 circular letters were sent to investment firms and credit institutions performing investment services and activities under Art. 6, para. 2 and 3 of MFIA.

Regarding the correct application of the provision of Art. 60, para. 2 of MFIA in connection with the possession of direct and indirect qualified holdings in an investment firm company, a circular letter was sent to the investment firms.

In 2019 **in the course of the supervision of the investment firms 3 coercive administrative measures (CAM) were discovered and applied**, one of which is related to non-reporting of a certain number of MiFIR transactions and is expressed in the obligation of the investment firm to report them. The other 2 CAMs are related to the valuation of client assets and the provision of information related to the establishment of circumstances for carrying out activities without a license.

Collective investment schemes and management companies

The scope of the off-site supervision performed by the FSC with regard to the collective investment schemes (CIS) and the management companies (MC) covers the annual financial statements of CIS and MC regularly submitted to the FSC, the six-month financial statements and the monthly balance sheets for CISs, and quarterly reports for MCs according to a template, set by the Deputy Chairperson in charge of Investment Activity Supervision Division. During the reporting period, an **inspection of the documents of 163 annual, 131 six-month and 124 quarterly financial reports**, as well as **1561 monthly balance sheets** of the management companies of CISs were performed. During the year, **482 inspections of documents** received by the FSC, including through the unified system for providing information electronically, established and maintained by the FSC - e-Register, were carried out on the prospectuses of CISs and on key investor information documents in compliance with the obligation for their submission to the regulatory authority and respectively their publishing.

In accordance with the requirements of the Collective Investment Schemes and Other Undertakings for Collective Investments Act (CISOUCIA), twice a month the MCs present summarized information on the determined issue values and redemption prices of the units of the CIS managed by them. In order to comply with these obligations, during the year the FSC has received and accordingly **checked 3,118 reports with summarized information** for the determined issue values and redemption prices of the shares of the CIS managed by the companies.

With regard to the **information submitted regularly (twice a year) by the MC**, during the year, **62 inspections** were carried out of the lists of persons with direct or indirect qualifying holdings (10% or more than 10% of the voting rights at the general meeting of the shareholders of the MC), as well as of the data about their votes in the general meeting of company shareholders. In order to more accurately present the required information for the persons holding both directly qualified holding and for those with indirect holding, during the reporting period the Deputy Chairperson of the FSC in charge of the Investment Supervision Division, a new model of reference of approved, which achieves greater clarity on the manner of participation in the ABM.

Regarding the supervision of the **compliance with the investment restrictions by the MC in the managed CIS portfolios**, **90 inspections** were carried out during the reporting period based on notifications received by the Commission for violations of investment restrictions due to reasons beyond the control of the MC and CIS.

As a result of the documentary inspections during the off-site supervision, with **65 orders** of the Deputy Chairperson of the FSC in charge of the Investment Activity Supervision Division, a total of **948 entries of circumstances** were made in the public register kept by the FSC regarding the MC and the CIS.

In connection with the performed off-site supervision over the activity of the MCs and the CISs organized and managed by them, during the reporting period **a total 12 proceedings were initiated for issuance of an individual administrative act for the application of CAM**. The open procedures are in connection with non-compliance with certain regulatory obligations, such as: publication on the website of the MC of the Annual Financial Statements for 2018 of the managed CIS, publication on the website of the MC of the information on the objectives and policy in relation to the management of CIS risks, for failure to submit to the FSC information on indirect ABM and for non-fulfillment of the obligation to publish on the website of the ABM the six-monthly reports for 2019 of the managed CIS. In view of the implementation of some of the operative part of the coercive measures referred to in the opening letters, **8** of the open productions are **terminated**, and the rest **4** productions are **issued decisions** for application of CAM in the sense of art. 276, para. 1, item 1, in connection with Art. 60, para. 2 of MFIA.

In the course of the off-site supervision they were examined **33 inquiries and requests for opinions** from legal entities, incl. supervised entities, foreign persons, as well as by individuals, in connection with the interpretation and application of relevant regulations regarding CIS investments, the manner of submission to the FSC of updated prospectuses and SGEIs, as well as annual financial statements and six-monthly reports of foreign CIS its shares on the territory of the Republic of Bulgaria, the manner and place of storage of options acquired by CIS, the distribution of structured products, the manner of reporting by the AIFM, annual fees due to the FSC by foreign CIS, etc., which are answered in within the reporting period.

Within the framework of the performed off-site supervision with regard to foreign CIS originating from another EU Member State, whose shares are offered within the territory of the Republic of Bulgaria under the terms of freedom to provide services, **428 applications** for the updating of the webpage of the FSC were prepared during the reporting period, based on which a total of **3022 documents** were published, which were mainly prospectuses, documents with key information regarding investors and financial statements.

In connection with the performed supervisory activity, during the reporting period **5 circular letters** were sent to MCs, which required the companies to provide a completed self-assessment questionnaire and statistical information in connection with the assessment of the compliance of the MC's activities with the

requirements of the legislation regulating the measures for prevention of the use of the financial system for money laundering purposes, regarding the content of the annual financial statements of the MCs and CISs, the provision of data on the persons holding directly or indirectly a qualifying holding in the MCs, as well as data for the votes held by them in the General Assembly, in connection with an approved new template of reference under Art. 60, para. 2 of MFIA, the provision of information on the participation of MCs in the creation, consulting, sale, respectively distribution of products classified as packaged retail investment products according to Regulation (EU) No 1286/2014 of 26 November 2014 on key information documents for packaged retail and insurance-based investment products.

Other collective investment undertakings

The scope of off-site supervision performed by the FSC are also other collective investment undertakings, such as sovereign wealth funds (SWF) which are a type of alternative investment funds (AIF) as well as the alternative investment fund managers (AIFMs) in accordance with their operation. In this regard, during the reporting period, a **documentary audit** was carried out of the **3-year, 3 six-month, 9 quarterly** financial reports and 36 monthly balance sheets of the SWF regularly presented in FSC, as well as **12 inspections** of the information disclosed by the AIFM on a six-month basis. The information provided by the AIFM to the FSC was reported to ESMA through the dedicated platform created for this purpose.

In connection with the convening and holding of **general meetings of the shareholders of the three closed-end SWFs** in 2019, **eight inspections of documents were carried out** with regard to the compliance with the obligation to announce to the FSC and the Commercial Register the invitations and the materials attached thereto as well as the minutes of the general meetings and their decisions.

With regard to the **notifications and disclosure of major holdings of the three closed-end SWFs** during the reporting year **13 inspections** were performed on the notification presented by the liable persons under Art. 145 of the POSA.

As a result of the inspections of documents during the performance of off-site supervision, by order of the Deputy Chairperson of the FSC in charge of the Investment Supervision Division, **42 entries of circumstances** were made in the public registers of SWFs and AIFMs kept by the FSC.

In connection with the performed off-site supervision over the activity of SWFs, during the reporting period **1 procedure was initiated for issuing an individual administrative act for the application of CAM** in connection with non-voting by the GMS of a national investment company on an additional item on the agenda related to a change in the members of the board of directors. It is the result of the initiated proceedings **1 decision was issued for application of CAM** within the meaning of Art. 212, para. 1 of POSA.

In relation to the off-site supervision carried out on the activity of the MCs and the CISs managed by them, as well as on the activity of the SWFs and the AIFMs, a total of **78 acts were established during the reporting year for establishing administrative violations** in the activity of MCs and the CISs managed by them, as well as that of other collective investment undertakings.

Public companies, Special Purpose Investment Companies and other issuers of securities

The off-site supervision of public companies, Special Purpose Investment Companies (SPICs) and other issuers of securities include an examination of the individual annual reports and quarterly financial

reports of the activity or quarterly notifications of financial position provided to the Commission and the public, as well as consolidated financial statements submitted by issuers that are required to prepare consolidated financial statements. The off-site supervision also encompasses the obligations of issuers of bonds to present a report on the fulfilment of their obligations under the terms of the bond issue to the Commission and the public, and the bondholders' trustees to submit a report for the respective period to the FSC and the regulated market where the bonds are traded.

In order to ensure compliance with the requirements of POSA in connection with the public disclosure of due information on the regulated market in which the financial instruments of issuers are admitted to trading, in the reporting 2019 the effective interaction and exchange of information between the FSC and the Bulgarian Stock Exchange AD continued, which to a significant extent are aimed at detecting the companies that have not fulfilled their obligations under the law or have fulfilled them with a delay.

The reporting period covers an examination of the annual and interim (individual and consolidated) financial statements, respectively individual and consolidated interim public notifications submitted to the FSC, the Bulgarian Stock Exchange AD and the public. In addition to the above-mentioned reports, in 2019 documentary inspections were carried out on reports on the fulfilment of the obligations of the bond issuers, according to the terms of the bond issue, as well as on the reports provided to the trustees of the bondholders. In this regard, in 2019 **document inspections were performed on 4 213** financial statements. As a result of ongoing supervision **85 thematic inspections were initiated**, mainly related to the analysis of additionally required data from the supervised persons, who submitted to the FSC and to the public financial reports on the observance of mandatory provisions of the POSA. AEA Vs have been drawn up for the established violations.

In connection with the convening and holding of **general meetings of shareholders / bondholders** of public companies and issuers of securities in 2019, **1,343 documentary inspections were carried out** of the content and timely submission to the FSC of invitations and the written materials attached to them, as well as of the minutes of the decisions made by the General Meetings submitted to the Commission. AEA Vs have been drawn up for the established violations.

In 2019 on **the disclosure of a significant holding in the capital of a public company or the change in such a circumstance, 52 inspections were carried out** of the information regularly received from Central Depository AD and the notifications submitted to the Commission. Based on the information received **12 reports** were prepared and **37 extraordinary inspections** were carried out in connection with changes in shareholding in the capital of PCs, and AEA Vs have been drawn up for the established violations.

Part of the regulated information that the liable persons disclose to the Commission and to the public is the **insider information** pursuant to Regulation (EU) No. 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse that has been in force as of 3 July 2016. During the review of the disclosed information, an assessment is made of the need to check the compliance with the other special requirements of the law, for example: compliance with the regime for large value transactions, market manipulations and misuse of inside information, etc. The regulatory compliance of the disclosure of information, part of which is also disclosed in the financial statements of public companies and other issuers of securities is determined during its formal verification, as well as whether it has been appropriately disclosed. The **supervised entities made 1,777 disclosures using electronic forms for disclosure of inside information in 2019 that were analyzed in the course of the off-site supervision.**

As a result of the off-site inspections of the annual and quarterly financial statements and notifications on the financial condition (individual and consolidated) presented by the FSC and published through the media by public companies, bond issuers and SPICs, reports on the fulfillment of issuers' obligations related to issues bonds and the reports submitted to the trustees of the bondholders, as well as to the procedures for convening and conducting the GMS, **During the reporting period, 228 proceedings for application of CAM were opened.** Considering the non-performance of the statutory obligations, which have not been fulfilled and following the initiation of proceedings to implement coercive administrative measures, **97 decisions were issued** obliging the supervised entities to bring their activity in compliance with the legal requirements, whereby through individual administrative measures impose the respective prescriptions on the offenders. As a result of the performance of statutory obligations, following the initiation of the administrative proceedings, **110 of these were terminated.**

At the end of the reporting period, as a result of a report with proposals for deregistration of supervised entities from the register kept by the FSC, measures were taken regarding the Bulgarian Stock Exchange AD, under Art. 212, para. 1, item 10 of POSA. With decisions of the FSC **9 coercive administrative measures** were implemented to suspend the execution of transactions with shares of public companies. The proceedings for official deregistration from the register under Art. 30, para. 1, item 3 of the FSCA of these companies continue in the early 2020.

Regarding the establishment of the obligations of the persons supervised by the FSC for fees for general financial supervision in 2019 **13 administrative proceedings were opened and 9 acts were issued for Established Public Debts to the State (AEPDS).** From October 2018 AEPDS are sent electronically to the NRA through a single platform for exchange of information in connection with the collection of public debt, through which **a total of 6 of the 9 issued AEPDS were sent** for the obligations for fees and interest for general financial supervision.

In the course of the current supervision during the reporting period, forms were processed in the electronic system for information disclosure e-Register, and in 2019, **6,539 electronic forms were received and processed.** Those of them, which after review were released publicly, are visualized through the official website of the Commission - "News" section of the e-Register.

In addition, in connection with notifications and documents received outside the e-Register system, related to circumstances subject to entry in the register under Art. 30, para. 1, item 3 of the FSCA, in the course of the off-site supervision of public companies, issuers of securities and REITs in 2019 are issued orders on paper for a total **715** entries.

Through an independent module "E-REGISTER 1D" in the unified electronic system for receipt of information from the FSC developed and maintained by the Commission servicing the processes of acceptance and publishing of information by companies under Article 1E of the Supplementary Provisions of POSA as established to standardize and facilitate the process of provision of the required information by the obligated entities, its public disclosure and use by external users – third persons, a total of **2296 applications for registration / deletion, title forms and reports** were received and processed in 2019.

During the reporting 2019, many complaints, reports and inquiries from natural persons, legal entities and government authorities were received by the Commission. Some of them concern the activities of public companies, bond issuers and SPICs. During the period **a total of 138 complaints, signals, inquiries, etc.** were received. After review and analysis of the factual situation presented in them, relevant inspections were carried out, and if necessary, documents and information were collected from the relevant institutions and

supervised persons or from third parties. An assessment was made of the compliance with the respective applicable legislation and a total of **116 responses were prepared, 92 of which were sent directly to the persons, and for 24 statements were made under Art. 28** of the Regulations on the Structure and Activities of the FSC and its Administration, for preparation of a final answer **in specific cases**.

As a result of the off-site supervision over the activity of the public companies, special purpose investment companies and the issuers of securities in 2019, a total of 382 AEA Vs were drawn up.

Insurance and reinsurance

The supervision activity, which the Insurance Supervision Division exercises over the activities of the supervised entities, consists in controlling their activity in compliance with the requirements of the IC, the acts for its implementation, as well as the acts of the European Commission implementing Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II).

The off-site supervision in 2019 is based on annual and periodic statements, reports by insurers and reinsurers, insurance groups, the Guarantee Fund and insurance brokers, as well as on the required additional information about certain areas of their activities. During the year, 686 off-site document inspections of insurers, reinsurers, insurance groups and Guarantee Fund and 724 off-site document inspections of insurance brokers were performed. The reviewed information includes annual and periodic reports and statements from insurers, reinsurers, insurance groups and insurance brokers based in the Republic of Bulgaria that have been submitted to the FSC in accordance with the obligations to report to the supervisory body as required by Article 126 of the IC and Article 311, Paragraph 3 of the IC.

In 2019 the conformity with the legal provisions of the IC related to the minimum capital requirement and the solvency capital requirement was inspected within the current off-site supervision with regard to insurers and reinsurers implementing the Solvency II regime. As a result of the document inspections performed on two insurers, a recalculation of the eligible own funds was required to cover the Solvency Capital Requirement as a result of holding shares of a parent company and a shareholder, which according to the requirements of Solvency II is equivalent to holding own shares.

An examination and verification of the solvency and financial condition reports submitted the regular supervisory reports and the reports on the results of the assessment of the aggregate solvency needs presented by insurers and reinsurers were also carried out.

A review of the assets to cover the technical provisions of insurers and of their compliance with the statutory requirements in respect of the types of assets and their structure was performed in 2019 in relation to insurers without right of access to the single market, as well as whether the amount of the assets to cover the technical provisions corresponds to the amount of the technical provisions set up to the last quarter.

Inspection was made of the sufficiency of the own funds of companies without access to the single market for coverage of the solvency margin/guarantee capital and for compliance with the solvency requirements at the end of each quarter.

In addition, in 2019, off-site inspections were carried out on:

- the methods used and the assumptions made to determine the fair value of shares held by insurers that are not traded on regulated markets;
- the availabilities in the current and deposit accounts of a part of the insurers;

- the existence of burdens on bank accounts held by insurers during the same period, including distraints (imposed, enforced and lifted ones);
- separate categories of assets from the Solvency II balance sheet and the Financial position report under Ordinance No 53;
- a detailed analysis of information received from two insurers related to data on paid, filed and refused motor third party liability insurance claims, data received by the FSC in the course of regular reporting and information submitted in real time in the Unified Information System for Risk Assessment, Management and Control, Including Policy Issuance (UICRAMC) of the Guarantee Fund;
- the methods and methodologies for performing stress tests, sensitivity analysis, reverse stress tests or other relevant analyzes in accordance with the Insurers' own risk and solvency policy or other internal policy. The results of stress tests were analyzed, as a result of which action plans were requested from several insurers in order to ensure the continuity of the activities of the respective insurers in the implementation of the emergencies described in the provided stress tests;
- the value of the shares held by the insurers, which are traded on a regulated market, in order to fulfill Art. 77a of Ordinance 53 of 23.12.2016 at the end of each quarter of 2019;
- the calculation of the Solvency Capital Requirement for the individual risks;
- the properties owned by the insurers;
- the observance of the prudent investor principle according to Art. 124 of the Insurance Code, as several insurers are required to bring the investment policies in line with the legal requirements;
- lending policies in accordance with Art. 261 of Delegated Regulation 2015/35. As a result of the review and the supervisory measures taken, the insurers developed and presented the relevant policies.

Also in 2019, the FSC launched a procedure for selection of an independent valuer to assess the market value of shares that are not accepted for trading on a regulated market of an insurer. In this regard, an invitation was sent for the evaluation to several auditors with international professional experience in the evaluation of international companies. Based on the received offers, a proposal for selection of an independent valuer was prepared and the FSC issued a decision appointing an independent valuer to assess the market value of one share.

In 2019, the shareholder structure of two insurers was examined, as a result of which it was established that the companies are insurers with a parent insurance holding company with mixed activity and on the grounds of Art. 234, para. 1, item 4 of the IC, a regime of insurance supervision under Chapter Twenty-six, Section Two of the IC, which includes supervision of transactions within the group, must be applied to them. In this regard, insurers are required to submit to the FSC information on transactions within the group together with the templates for annual quantitative reporting.

In 2019, based on the EIOPA Guidelines to support effective dialogue between supervisors and statutory auditors and audit firms carrying out statutory audits of these companies (EIOPA 16/858), a number of working meetings were held with some of the audit firms approved to verify and certify the annual financial statements for 2018. During the meetings a number of issues were discussed to be taken into account by the audit firms when performing the audit.

In connection with the performed off-site supervision over the activity of insurers and reinsurers in 2019, **a total 12 proceedings were initiated for issuance of an individual administrative act for the application of CAM.** In view of the fulfillment of the obligations laid down in the operative provisions

before the administrative act was issued, two of the open proceedings were terminated, and the other ten were concluded with the issue of an individual administrative act.

The off-site supervision of insurers also included a verification of the sufficiency of the established technical provisions. In connection with the determination of the amount of provisions for incurred but unfiled claims under Motor Third-Party Liability, information on the amount and number of the claims made and paid under the insurance and the value of the development factors is summarized and published on the web page of the FSC.

By the end of each quarter of 2019, a verification was performed to ensure that there is compliance with the legal requirements to the method used to determine the amount of the provision for incurred but not reported claims under Motor Third-Party Liability.

During the period under review, opinions were prepared regarding motivated requests of the insurers for setting aside a reserve for incurred but not reported claims, according to Art. Art. 92, para. 1 of Ordinance No 53. Based on the prepared opinions, in the first half of 2019 15 decisions were issued for approval of a method for forming a reserve for incurred but not reported claims as of 31.12.2018 and currently in 2019. In connection with the approvals, work meetings were carried out with representatives of insurers, where issues related to the methods used and the consistency of the data were discussed.

Regular review of the reports submitted to the FSC by the insurers with the periodic reporting in connection with the sufficiency of the reserve for reported but not settled claims for insurance under item 10.1 of Section II, letter "A" of Annex 1 of the IC.

Inspections of the adequacy of the reserves under Ordinance No 53 and Solvency II were currently carried out, using market data and data from the information system of the Guarantee Fund (GF).

Additionally, in 2019, in-depth inspections of three of the insurance companies were carried out regarding the amount of reserves set aside and reported to the FSC for reported but not settled claims under Motor Third Party Liability Insurance, paid claims and rejected claims for each quarter. The data provided by the insurers were also compared with the data on the claims of the GF, as well as with the information regarding the claims under Green Card.

The data were checked on the settled and reported claims under the Motor Third Party Liability Insurance as of 30.09.2019, submitted to the UICRAMC of the GF by all insurers based in the Republic of Bulgaria and licensed to offer the above insurance. The data on the claims in UICRAMC were compared with the data in the quarterly reports under Ordinance No 53. The results of the inspection were discussed with the insurers in order to eliminate the identified differences.

At the beginning of each quarter the maximum amount of the used technical interest in the calculations of the premiums and reserves was calculated and published on the FSC website according to Art. 86, para 11 of Ordinance No 53.

In the first quarter of the year a procedure was initiated for the issuance of general administrative act, a decision was issued to determine the amount of minimum percentages, according to Art. 91, para. 3, item 2 of Ordinance No 53, as of 31.12.2018 and currently in 2019. At the end of the fourth quarter of 2019 a similar procedure was initiated for the issuance of general administrative act, a decision was issued to determine the amount of minimum percentages, according to Art. 91, para. 3, item 2 of Ordinance No 53 as of 31.12.2019 and currently in 2020.

During the year **729 off-site inspections on documents of insurance intermediaries** were performed , including 724 inspections of documents of insurance brokers, of which 711 of the annual and

six-monthly reports and statements of insurance brokers, and 13 of the annual financial statements of insurance brokers guaranteeing their activities with their own funds, as well as 3 thematic and 2 after received complaints and reports. Also, 14 thematic inspections of insurers were carried out, related to their obligation to notify the Commission of changes in the list of persons with whom they have concluded contracts for insurance agency. The reviewed information includes annual and periodic reports and reports from the insurance brokers based in the Republic of Bulgaria, submitted to the FSC in accordance with the reporting obligations to the supervisory body according to the requirements of Art. 311, para. 3 of the IC.

The scope of the thematic inspections monitors the requirements related to the deadlines for reporting the insurance premium collected by intermediaries, the performance of insurance services only by persons entered in the FSC register, as well as the restriction on performance of activity by an insurance agency for only one insurer.

As a result of the performed off-site inspections **a total of 65 acts for 86 administrative violations were drawn up**, of which: 5 acts for established administrative violations as a result of thematic inspections of insurance brokers, 40 acts for established administrative violations in connection with the reporting obligations of insurance brokers, as well as 15 acts for established total 36 administrative violations of insurers related to their obligation to notify the Commission for changes in the list of persons with whom they have concluded contracts for insurance agency.

Introduction of risk-based supervision

At the end of 2018, the FSC approved the Risk Assessment Framework under Solvency II, which consists of a manual for risk-based supervision and a risk matrix. The latter has four levels of risk assessment categories and creates a risk assessment framework for each re / insurer through the following steps:

- performing qualitative and quantitative analysis of each enterprise;
- inclusion of a supervisory assessment in the results of the performed analysis.

The risk-based supervision covers all activities performed by the FSC for fulfillment of its obligations under Art. 582 of the IC, including an assessment of the strategies, processes and procedures for reporting of insurance and reinsurance undertakings established to comply with the IC with regulations for its implementation, as well as with the acts of the European Commission implementing Directive 2009/138/EC.

In this regard, in 2019 a quantitative and qualitative analysis of each insurer and reinsurer was performed in order to prepare the impact assessment and risk assessment of each of them according to the manual for risk-based supervision. 36 reports were prepared as a result of the performed analyzes, as each insurer and reinsurer is categorized on a scale with four categories (1 - low risk; 2 - medium to low risk; 3 - medium to high risk and 4 - high risk). The results of the analyzes are reflected in the Annual Supervisory Plan for 2020, which consists of all measures planned for each insurer and reinsurer based on a risk-based review..

Actions in connection with Bulgaria's intention to join ERM II

In connection with Bulgaria's intention to join the Exchange Rate Mechanism (ERM II) in 2019, a number of meetings were held with representatives of EIOPA to discuss the financial condition and solvency of some insurers, as well as the supervisory actions taken by the FSC.

An Action Plan was agreed between the FSC and EIOPA in early August 2019, which covers several areas, namely: technical provisions, Clean Cut reinsurance contracts, the prudent investor principle,

valuation of bonds and shares, classification of related companies, including participations and scope of group supervision, efficiency of the management system and solvency.

Following the coordination of the Action Plan, active correspondence continued with EIOPA on its implementation.

As a result of the efforts made, in November 2019 EIOPA sent a positive assessment to the European Commission in connection with Bulgaria's intention to join ERM II, provided that additional supervisory measures are in place to be monitored by EIOPA.

Participation in supervisory colleges and market research of European supervisory authorities

In 2019, participation was ensured at colleges of supervisors in which the FSC took part. FSC employees participated in the meetings of supervisory bodies throughout the year and information was exchanged.

There was also involvement in various quantitative market surveys of European supervisory authorities – EIOPA and the European Systemic Risk Board. In connection with the impact assessment of long-term guarantee measures and capital risk measures, information was collected and summarized by insurers and reinsurers applying the Solvency II regime. Based on this information, quantitative and qualitative questionnaires were completed and sent to EIOPA.

The Commission took part in an EIOPA study on the distinctive business of branches. In this regard, information was requested from the branches of European insurers that operate in our territory under the conditions of the right of establishment.

The FSC also participates in the assessment launched by EIOPA of the impact of the proposed changes on the review of the Solvency II Directive on the solvency of insurers, on the one hand, and on supervisors, on the other.

In this regard, the FSC:

- completed a questionnaire on the possible costs and benefits for the FSC from the proposed legislative changes and determined the insurance companies based in the Republic of Bulgaria and the insurance groups to take part in the assessment based on criteria defined by EIOPA;
- sent quantitative and qualitative questionnaires for completion by the insurers and insurance groups selected for participation;
- verified and sent to EIOPA the information received from insurers and insurance groups;
- prepared a brief analysis in support of the data from the answers in the group questionnaires.

In 2019, active communication was held between representatives of the FSC, the Romanian supervisory authority and EIOPA on the occasion of discussing the financial condition of the Romanian insurer Chertasig - Insurance and Reinsurance Company AD, which operates in the Republic of Bulgaria under the terms of the law of establishment (through a branch). In February 2020, the Financial Supervision Authority of the Republic of Romania decided to revoke the license of the Romanian insurer Certasig - Insurance and Reinsurance Company AD due to the fact that the company has not restored the level of eligible own funds covering the minimum capital requirement in within the period provided by law.

In 2019, there was a periodic exchange of information between representatives of the FSC, the competent supervisory authorities of Greece, Italy and EIOPA. Conference talks were held regarding the activities of Bulgarian insurers, under the conditions of freedom to provide services in Greece and Italy.

Supplementary pension insurance

The off-site supervision of supplementary pension insurance is carried out in two main directions – daily and periodic supervision. Monitoring is also carried out on the PIC websites.

The daily supervision is carried out on the basis of the daily reports received by the PICs and the custodian banks on the activity of the SPFs. In 2019, **6 972 daily inspections were carried out**. The inspections monitor the legality of the transactions concluded with the assets of the pension funds, the compliance with the legal restrictions and prohibitions on the investment of the assets of the funds, the ratio of the investments in individual types of financial instruments to the assets of the pension funds, the investments held in one issuer, the method of assessment of the assets and their proper reporting by the PICs and in the custodian banks' registers. The daily supervision also monitors the correct deduction of the investment fee and the fee from each contribution to the supplementary mandatory pension funds, the change in the value of the net assets, the correct determination of the number of units corresponding to the amounts received and withdrawn and the correct calculation of the value of one unit.

Periodic supervision is carried out on the basis of monthly, quarterly and annual financial reports and statements on the activities of the PIC and the SPF managed by them. **A total of 481 inspections were carried out in 2019**, including 117 inspections of the submitted financial statements and reports on the activities of the PIC and 364 inspections of the submitted financial statements and reports on the activities of the SPF. The statutory and general financial indicators for the activity of the PIC and the SPF are calculated and analyzed on the basis of the information in the financial statements and reports. The statutory indicators are used to monitor the lawful implementation of PIC activities on a monthly basis. The statutory indicators are capital adequacy of PIC, liquidity of PIC and SPF, deducted investment fee for PIC from VPF and VPF with occupational schemes, management fee from the insurance contributions of VPF and VPF with occupational schemes, a reserve to guarantee the minimum return for SMPF. The growth of assets and insured persons in the SPF, the investments and the rate of return of the pension funds are analyzed on a monthly basis. The general financial indicators are calculated and analyzed on an annual basis. These indicators are related both to the activities of the PIC – equity, assets, income and expenses of the PIC, as well as to the activities of the SPF – assets, participants, investments, rate of return and income of the pension funds.

Monthly inspections of the PICs' websites were made during the year also to check the compliance with the provisions of the SIC and of Ordinance No. 61 of 27 September 2018 on the requirements for advertising and written information materials and the web pages of the pension insurance companies. The inspections did not find any significant deficiencies or inconsistencies. The publication of information on the volume and structure of investments by types of assets and issuers of financial instruments is also checked on a regular basis (10th day of the month following the respective quarter).

During the year an analysis of the overdue receivables of the pension funds related to bond issues and investment properties owned by them was performed. As a result of the analyzes, letters were sent to the PICs requesting information on the actions taken by the companies to collect the receivables from the bond issues and from the investment properties. On the basis of the information received from the companies on a daily basis the observance of the deadlines for fulfillment undertaken by them is monitored.

During the year, reports were prepared on inspections performed for compliance with the restrictions on investments of SPF in financial instruments issued by companies of one group and persons with whom

these companies are in close relations, regulated in Art. 178, para. 2 and Art. 251, para. 2 of SIC. As a result of the findings of the reports, supervisory actions were taken if necessary.

During the year, on the basis of selections, the valuations of certain properties, owned by SPF, prepared by the independent appraisers, were analyzed. Based on the performed analyzes, reports were prepared on compliance with the requirements of Art. 10 of Ordinance № 9 of 19.11.2003 of the FSC, and no violations were established during the year. In connection with the findings in the reports, letters were sent to some PICs, with which the companies were given recommendations.

During the year, cross-checks were carried out for the availability of the most significant part of the funds of the reserves for guaranteeing the minimum profitability under Art. 193, para. 8 of the SIC of three pension insurance companies, in connection with which information was requested and verified by banks. As a result of the performed inspections, a recommendation was made to one PIC.

During the year the FSC carried out intensive supervision regarding the capital adequacy of one PIC.

Risk-based supervision began at the beginning of the year. Based on the approved Manual for implementation of risk-based supervision of PICs and the SPFs managed by them, at the beginning of the year **for the first time a comprehensive assessment of the risk profile of each company was performed, and an assessment of the systemic significance**, taking into account the factor “time period after the last general inspection”, on the basis of which the Annual Program for on-site inspections in PICs and the SPFs managed by them for 2019 was prepared. During the year a new comprehensive assessment of the risk profile of each pension insurance company, an assessment of systemic significance and the time period since the last general inspection” at the end of each quarter were carried out. There were no significant changes in the risk profile of the companies during the year. At the end of 2019, four companies have a low-risk profile, and the remaining five companies fall into the range of medium-risk profile, including risk premium for systemic significance. If the risk premium for systemic significance is not taken into account, by the end of the year seven PICs are defined as low risk and only two companies remain with a medium risk profile.

In accordance with the Manual for the implementation of risk-based supervision of PICs and the SPFs managed by them, **in the beginning of the year, an annual survey of risk management in the supplementary pension insurance activity was conducted.** For the purposes of the survey, all PICs were required to provide information on the methods of measuring and assessing risks, their management, documentation and reporting, the relevant responsible persons and others. The information presented by the nine PICs is related to the existing practice of identifying and limiting risks in each company. As a result of the information obtained through the survey, the following conclusions were made:

- all companies have identified quantitatively and qualitatively measurable risks accompanying their pension insurance activity;
- according to the companies, most resources are invested in the management of market, operating (operational) and credit risk;
- as the most difficult risks to manage, most companies point out the political and legal-regulatory risk, due to the poor predictability of their manifestation and effect, followed by the operational risk;
- in the first place in terms of importance, pension insurance companies place market risk, despite large differences in their assessments of its weight, and it should be noted that market and operational risk are the two risks for which all pension insurance companies give respective risk weights;
- all companies have introduced methods for measuring and assessing the observed risks and have indicated daily, monthly, quarterly or other frequency, depending on the specific risk and the method used;

- The restrictions / limits indicated by the companies for the quantifiable risks largely coincide with the restrictions introduced in the SIC. For the risks that are not subject to quantitative measurement, certain qualitative indicators are defined and monitored.

Overall, the companies' replies confirm that the activities of identification, assessment, monitoring, management, mitigation and interconnection accounting and reporting are included in the risk management function.

3.2. On-site inspections

The on-site inspections are an essential part of the operations of the FSC which supervises the non-banking financial sector in accordance with its mandate as defined under the FSCA and the specialized legislation. Their purpose is to establish the lawfulness of the operations in cases, where this cannot be determined during the off-site supervision, ensuring an objective assessment of the supervised entity's financial stability, providing knowledge about the activities and management of a given entity, and evaluation of their quality and efficiency, identifying problematic areas within their business, as well as the application of best market practices in order to protect investor's interests.

According to the manner of scheduling, the inspections are **scheduled** and **ad-hoc**. Scheduled on-site inspections are performed based on an approved annual plan prepared on the grounds of applicable approved criteria for classification of supervised entities according to their risk level. The ad-hoc inspections are performed outside the annual schedule and aim at clarifying facts and circumstances related to identified issues with exercising off-site supervision, significant changes (for example in the management structure or the ownership of the supervised entity, market behaviour, market environment, etc.), data collected through the analysis of the financial statements submitted to the FSC, as well as other notifications and statements related to complaints and alerts received by the FSC, in case of identified violations, as well as with regard to information received from other regulatory authorities or external sources. **Depending on the scope of the inspections, they are comprehensive (complex)**, which include all main aspects of the supervised entity's operations, **and thematic**, which are more limited in scope and aimed at inspecting one or several specific aspects of the supervised entity's activities. **Depending on the officials who carry out the inspections, they can be independent, parallel and joint**. The inspections of one supervised entity performed by experts from one of the divisions of the FSC are independent inspections as opposed to the parallel inspections that are carried out simultaneously in several supervised entities by employees in one or several divisions of the FSC. The joint inspections are carried out by the FSC employees together with other control bodies (SANS, BNB, NRA, etc.).

Investment firms, central securities depository and regulated markets

In 2019 **3 inspections** of investment firms and **1 inspection** of a branch of a foreign investment firms, licensed to carry out investment intermediation activity in another Member State of the European Union, were completed, which inspections were initiated in 2018. In view of the way of planning the inspections, they are differentiated into **2 scheduled** and **2 unscheduled ones**, and depending on the scope of the inspections - into **3 full (comprehensive)** and **1 thematic inspection**, and all inspections were **independent** from the point of view of the circle of officials carrying out the inspection. Within the inspections carried out on the supervised entities, a total of **3 acts for established 3 administrative violations were issued during the reporting period**. All inspections were completed with the preparation

of reports and delivery of statement of findings to the inspected supervised persons, and the relevant **recommendations** for observance of the applicable legislation and bringing the activity of the persons into compliance.

In 2019 **5 inspections** of investment firms were initiated. In view of the manner of planning the inspections, they are differentiated into **4 scheduled** and **1 unscheduled one**, and depending on the scope of the inspections - into **4 full (comprehensive)** and **1 thematic inspection**, and all inspections are **independent** from the point of view of the circle of officials carrying out the inspection. **All comprehensive inspections of investment firms encompassed the entire operation of the companies** with regard to their compliance with the Markets in Financial Instruments Act (MFIA), Regulation (EU) No 575/2013, Regulation (EU) No 648/2012, Regulation (EU) No 600/2014 and the regulations for their application. **The thematic inspection** covers compliance with the requirements and provisions of Chapter VI, Section III, and Chapter VII of MFIA, Delegated Regulation 2017/565 and their implementing acts. Within the inspections carried out on the supervised entities, a total of **57 acts for established 190 administrative violations were issued during the reporting period**.

Collective investment schemes, management companies, and other collective investment undertakings

The purpose of the inspections of the management companies (MCs) and the collective investment schemes managed by them (CISs), as well as the sovereign wealth funds (SWFs) and the persons managing these funds (AIFMs), is to establish the compliance of the applicable regulations regarding the organization of the activities of the management companies according to the license issued to them by the FSC and in relation to the CISs organized and managed by them, incl. contractual funds (CFs), as well as in terms of the activities of the SWFs and the AIFMs. The scope of the inspections includes compliance with the requirements related to the capital adequacy and liquidity of the MC, the relations of the MC with the depository and the investment firms, the determination of the net asset value, the issue value and the redemption price of the units of the CIS managed by them, the valuation of the assets in the CIS portfolios, the sale and redemption of units of the CIS, the structure of the assets and liabilities of the CIS, as well as the reporting of CIS. Regarding the SWFs and the AIFMs, the subject of the inspections was the compliance with the requirements related to the storage of the SWFs' financial assets in a depository institution and the relations with the investment firms, the structure of the assets and liabilities, the valuation of the assets in the portfolio and the determination of the net asset value, as well as the disclosure of the information required by the SWFs and the AIFMs. In the cases where the MC provides additional services under Art. 86, para. 2 of CISOUCA, the scope of the inspections includes the compliance with the requirements related to the management of portfolios and the provision of investment advice on financial instruments.

During the inspections, special attention was given to the compliance with the requirements of the Law on Measures against Money Laundering (LMML) and the regulations for its application considering the circumstance that MCs and AIFMs were among the entities obligated to comply with these regulations. During the reporting period, **1 thematic inspection of a MC and the 6 mutual funds managed by it** was initiated. The subject of the inspection was the compliance of the MC with the applicable legislation in the field of measures against money laundering and terrorism financing, therefore examining the internal rules, policies and procedures of the MC, the compliance with all requirements of the LLML and LLML Implementation Regulations for carrying out due diligence on customers, the origin of the funds, the

transactions executed and their counterparties. The inspection will be completed in 2020. In case any violations are found, actions will be taken to engage the administrative penal liability of the respective persons, and recommendations will be made for bringing the activity in compliance with the regulatory requirements.

During the reporting period **1 scheduled full inspection was closed of a MC and of the 6 CIS and 1 SWFs managed by it**, which was opened in 2018. Apart from that, **1 scheduled full inspection of an MC and of the 14 CISs managed by it** was opened and closed. The inspections have been carried out with a view to establishing compliance with the applicable legislation in relation to the activity carried out by the companies. As a result of the performed on-site inspections of the MCs and the CISs managed by them, grounds were established for **9 recommendations and 10 notes**, with which the companies were made aware of the need to bring their activities in line with the applicable regulatory requirements.

In the course of the comprehensive scheduled inspection of the MC opened and completed in the year 2019, a total of **2 acts for the establishment of administrative violations were drawn up**.

Special Purpose Investment Companies

Special Purpose Investment Companies (SPICs) are a special type of joint stock company licensed under the Special Purpose Investment Companies Act (SPICA) to perform a particular type of activity, namely securitization of real estate or securitization of receivables. In this regard, the inspection encompasses on one hand the operations of the company as a SPIC and on the other, the fulfillment of the obligations in its capacity as a public company (PC). In this regard, the scope of the inspection includes compliance with SPICA and POSA, and the instruments for its application. The objective of the inspection of SPIC is to examine the relations with the servicing companies and their activities, the relations with the depository bank, the contracts concluded by the company, the investments made, the sources of financing of the activities of the SPIC, the profit distribution, the keeping and the investment of free funds, investment in specialized companies, the total annual management costs, the disclosure of regulated information, the holding of general meetings of the shareholders as well as all internal documents related to their operation.

During the reporting period **1 scheduled full inspection of a SPIC and the company servicing its activity was opened**, as their overall activity for the last 2 years has been inspected. The inspection was completed in 2020. Due to discrepancies with the regulatory requirements of the SPIC, **2 recommendations** were made. Apart from that, as a result of problems identified in the course of off-site supervision in the activities of **one SPIC**, during the reporting period was opened **an extraordinary full inspection of said SPIC, of the company servicing its activity, as well as the specialized company** in which the SPIC has invested. The inspection was completed in 2020. In connection with the discrepancies with regulatory requirements found in the course of the inspection, the SPIC and the specialized company were sent a total **10 recommendations**, in order to bring their activities in line with the applicable regulations. Apart from that, in connection with the violations found during the inspection, **9 acts for establishing administrative violations** were issued.

Public Companies

During the reporting period **4 inspections of public companies were opened**, one of them is complete and the overall activity of the public company for the last 2 years has been inspected, and the other

3 are thematic. One inspection ended in 2019 with the issuance of 6 AEAVs, one was completed in early 2020, and another 2 are still ongoing (24 AEAVs were issued in one of these two inspections in 2019).

Insurance and reinsurance

In 2019, three of the on-site inspections of insurance companies started in the previous year were completed. In addition, a total of 11 inspections were opened during the year: 4 full inspections of the activity of insurers, 1 full inspection of the Guarantee Fund and 6 thematic inspections.

One of the full inspections of the activity of the insurers ended with the issuance of a decision of the FSC for revocation of a license. The grounds for revocation of the insurer's license, established during the inspection, are as follows:

- the insurer has not operated for more than six months;
- the insurer has ceased to meet the conditions for issuing a license, namely has ceased to comply with the requirements of the management system under Chapter Seven of the IC and has not provided evidence that persons performing key functions meet the requirements for qualification and reliability; the insurer did not have a management system, an adequate, efficient and transparent organizational structure that would ensure reliable and reasonable management of the company's activities; lack of an effective management system, which contributes to the proper development of the insurer's activity and non-compliance with the requirements of the IC in connection with the management system endangers the stability of the insurer and its functioning;

- the insurer has committed gross violations of the Insurance Code by failing to notify the FSC in case of a change in the persons performing key functions in the insurer; the insurer has not received approval from the supervisory body, certifying that the persons meet the legal requirements for holding the position; the lack of current internal rules and policies under Art. 77, para. 1 of IC, as well as non-fulfillment of the obligation under Art. 77, para. 2 of the IC to submit to the General Meeting of Shareholders an annual report on their implementation, including the implementation of the program for the activities of the insurer.

The decision to revoke the license prohibits the insurer from freely disposing with the assets until liquidation or insolvency proceedings are initiated, and a conservator is appointed until the court appoints a receiver or until the registration of a liquidator.

Five of the thematic inspections of insurers are on the reporting of proportional reinsurance contracts of the "Clean Cut" type. The results of the inspections showed that the amounts reported by the five insurers for reinsurance reimbursements as at 31.12.2018 were correctly calculated.

The sixth thematic inspection of an insurer is regarding the formation of sufficient technical reserves by type and amount, according to Art. 115, item 2 of the Insurance Code, to meet the obligations of the insurer under the "Green Card" system and arising as a result of events that occurred outside the territory of the Republic of Bulgaria and on the basis of policies concluded by the insurer for motorists and the accuracy of the receivables reported by the insurer and the completeness of the liabilities. As a result of the inspection, the insurer depreciated a part of its receivables as of 30.09.2019 and 31.12.2019. At the beginning of 2020, a CAM was imposed, which obliged it to set aside, update and recalculate its technical reserves for or Third Party Liability Insurance to meet the company's obligations to a correspondent / national Green Card office in another country. As a result of the imposed coercive administrative measure, as at 30.09.2019 the insurer

increased the amount of the reserve for filed but unpaid claims under the Motor Third Party Liability Insurance.

Insurance intermediaries

In 2019 a total of **36 on-site inspections of insurance firms were carried out**, of which 35 scheduled and 1 unscheduled.

The comprehensive inspections of the activity of insurance intermediaries include monitoring the compliance with the requirements of the Insurance Code (IC) and its implementing instruments and prevention of offenses, checking the distribution of insurance products and the persons offering and comparing such products. The scope of the inspections includes monitoring the requirements, related to the provision of pre-contractual information, provided to the users of the insurance services, guaranteeing their activity and the deadlines for reporting the insurance premium collected by the intermediaries, etc.

As a result of what the **on-site inspections of insurance firms carried out during the year, 30 acts were issued for a total of 41 administrative violations**, the most common violations being related to non-compliance with the following regulatory requirements:

- the transfer in favor of the insurer of the premium received or an insurance installment within the statutory terms;
- the settlement of the relationship between the insurance broker and the users of insurance services under a contract, when concluding insurance contracts on voluntary insurance;
- the provision of pre-contractual information to the users of insurance services by insurance intermediaries prior to the conclusion of the insurance contract;
- the notification of the FSC within seven days of changes in the facts and circumstances subject to entry in the registers kept by the Commission;
- the forbidding of the provision of rights to persons who are not agents of the broker to engage in the sale of insurance products and the collection of insurance premiums or contributions, including by providing access to an information system of an insurer or providing a form for issuing a policy or collecting a premium or an installment.

Supplementary pension insurance

In 2019 **4 on-site inspections were opened**, 3 of the inspections were completed during the reporting period and the last one was completed in early 2020.

General scheduled inspections on the activity of PICs and the SPFs managed by them **were opened for 2 pension insurance companies**. During the general inspections the observance of the provisions of the SIC and the by-laws on its implementation in connection with the implementation of the overall activity of the pension insurance companies and the supplementary pension insurance funds managed by them is monitored. **Thematic planned inspections** on the activity of PICs and the SPFs managed by them **were opened for 2 pension insurance companies**, The object of supervision is the activity of the company and the SPFs managed by it in connection with the observance of the provisions of the SIC and the by-laws on its application regarding risk management, investments, receivables and liabilities of the managed pension funds.

A total of 56 recommendations were made to the management bodies of the pension insurance companies in the prepared findings reports as a result of the inspections completed in 2019 to improve their activities. No violations of the provisions of the SIC and the bylaws on its implementation have been established.

3.3. Law enforcement

In 2019, employees of the FSC, authorized by the Deputy Chairperson of the FSC, in charge of the Investment Supervision Division, **issued and served 585 acts for establishing administrative violations (AEAV)**, which indicate violations of the POSA, MFIA, CISOUCA, Ordinance 58, Ordinance 44, Regulation (EU) No 596/2014, Regulation (EU) No 575/2013, Regulation (EU) No 600/2019 and Delegated Regulation 2017/565. The trend from the previous reporting period to increase the number of issued acts for establishing administrative violations is preserved. The increase in the number of AEAVs compared to the previous year is due to the increase in the efficiency of the performed off-site and on-site inspections of the supervised persons. Most of the violations (460 AEAVs) are related to the activity of public companies (PCs) and other issuers of securities, special purpose vehicles (SPICs) and management companies (MCs).

The Deputy Chairperson of the FSC in charge of the Investment Supervision Division, **has issued 242 penal warrants (PWs)**. They imposed sanctions **amounting to BGN 1,986,000 for 340 violations**. **The value of the PWs that entered into force in 2019, issued by the Deputy Chairperson of the FSC in charge of the Investment Supervision Division, amounts to BGN 1,273,000.**, most of which are PWs issued in previous years.

In 2019, **170 complaints were received against acts PWs of the Deputy Chairperson of the FSC in charge of the Investment Activity Supervision Division**.

Most of the **coercive administrative measures (CAMs)** applied during the reporting, period, were a result of the off-site inspections of the annual and quarterly financial statements and notifications on the financial condition (individual and consolidated) presented by the FSC and published through the media by public companies, bond issuers and SPICs, reports on the fulfillment of issuers' obligations related to issues bonds and the reports submitted to the trustees of the bondholders, as well as to the procedures for convening and conducting the GMS – 228 proceedings for application of CAM were opened. Considering the non-performance of the statutory obligations, which have not been fulfilled and following the initiation of these proceedings, **97 decisions were issued** obliging the supervised entities to bring their activity in compliance with the legal requirements.

In 2019 **in the course of the supervision of the investment firms 3 coercive administrative measures (CAMs) were discovered and applied**, one of which is related to non-reporting of a certain number of MiFIR transactions and is expressed in the obligation of the investment firm to report them. The other 2 CAMs are related to the valuation of client assets and the provision of information related to the establishment of circumstances for carrying out activities without a license.

In 2019, 573 acts for establishing administrative violations (AEAVs) of persons under the supervision of the Insurance Supervision Division were issued. A total of 753 administrative violations were ascertained with the issued acts, which were served in accordance with the provision of Art. 18 of the Administrative Offenses and Penalties Act. The violations were ascertained during inspections of the activity of the persons supervised by the FSC, as well as during the consideration of complaints of users of insurance services..

In the field of insurance supervision, in 2019, **the Deputy Chairperson of FSC in charge of the Insurance Supervision Division** imposed a total of 761 **penal warrants** were issued, imposing **penalties amounting to a total of BGN 2,495,000** for violations under the IC and the regulations for its implementation.

The total amount of **the sanctions under the PWs that came into force in 2019, issued by the Deputy Chairperson of FSC in charge of the Insurance Supervision Division**, including penal warrants issued in previous years, **is BGN 2,535,500**. The main part of the amount (BGN 2,398,500) is formed by penal warrants that have entered into force, with which the administrative penal liability of general insurance companies is engaged.

During the reporting period, 53 **coercive administrative measures** were instituted against (re-)insurers and insurance intermediaries, as a result of non-taking of the respective actions by the supervised entities, **32 coercive measures were implemented**.

In 2019, a total of 423 **complaints were received against acts of the Deputy Chairperson of the FSC in charge of the Deputy Chairperson of the FSC Insurance Supervision Division**. Of these, 415 are against issued PWs, and 8 are against individual administrative acts issued by the Deputy Chairperson of FSC in charge of the Insurance Supervision Division.

In the field of insurance supervision in 2019 **8 acts were issued for establishing administrative violations** of the provisions of the Social Insurance Code (SIC). **The issued penal warrants are 5**, with which property sanctions in the total amount of BGN 110,000 and one fine in the amount of BGN 1,000 were imposed. The relatively small number of issued AEA Vs and issued PWs is due to the preventive effect of the fines and sanctions imposed during the previous reporting periods, which have an educational and preventive deterrent effect on persons.

Four of the PWs issued during the reporting year were appealed, as at the end of 2019 the FSC did not receive information about their entry into force, and the fifth PW was not appealed and entered into force. In 2019 **one** a penal warrant issued in a previous year entered into force, the property sanction imposed by it being **in the amount of BGN 10,000**.

During the reporting period were **applied 2 coercive administrative measures** on pension insurance companies, with which two **pension insurance companies are obliged to accept applications for change of participation of insured persons**. The coercive administrative measures have been implemented by the pension insurance companies within the set deadlines.

In 2019, **two complaints were received against PRs of the Deputy Chairperson of the FSC, in charge of the Social Insurance Supervision Division**.

Table 16. Enforcement in 2019

	Executed AEA Vs	Issued PWs*	Value of enforced PWs** (BGN)	Proceedings opened under CAM	Decisions for implementation of CAM***
Investment firms, central securities depository and BSE	82	28	96,000	3	3

CIS, MC, SPIC, PC and other issuers, as well as their representatives	458	193	912,500	236	101
Non-life insurance companies	478	713	2,414,500	51	30
Life insurance companies	16	11	16,000	0	0
Insurance brokers	59	37	103,000	1	1
Insurance agents	18	5	20,000	1	1
Guarantee Fund, NBBMI	2	1	0	0	0
Pension insurance companies / their representatives	8	5	11,000	0	2
Other legal entities and natural persons	45	33	336,500	9	9

Notes: *The number of PWs issued in the reporting year includes both PWs issued on the basis of AEAV of the same year and PWs issued on the basis of AEAV during the previous year. This is due to the fact that the deadline for issuance of a PWs is six months after the date of issue of an AEAV according to Article 34, Paragraph 3 of the Administrative Offenses and Penalties Act. ** The value of PWs that entered into force in 2019 also covers PWs issued in previous periods. *** A decision for application of CAM is reached in case the companies do not comply with the open procedure for application of CAM. When applying the CAM under the procedure of the SIC, the provisions of the APC regarding the explanations and objections of the interested parties are not applied.

During the year, 18 PWs were also issued by the Chairperson of the FSC for violations committed under the SPICA, as well as **for obstruction of the Commission**, its bodies and duly authorized officials of its administration in the exercise of their supervisory powers (**violation of Art. 32 of the FSCA**). **The total value of the sanctions imposed by the 4 PWs under the SPICA issued by the Chairperson of the FSC is BGN 39,000.**, all of which are in respect of SPICs. A total of **14 PWs were issued under Art. 32 of the FSCA, which imposed sanctions totaling 30 BGN 000**, incl. 3 PWs worth BGN 6,000 to an investment firm, 5 PWs worth BGN 16,000 to two non-life insurance companies, 1 PW worth BGN 2,000 to an insurance intermediary, 4 PWs worth BGN 4,000 to individuals and 1 PW worth BGN 2,000 to another legal entity. **The total amount of the 18 PWs that entered into force in 2019, issued by the Chairperson of FSC, including penal warrants issued in previous years, is BGN 90,000.** For the reporting year 2019 there are 8 PWs revoked by the court, issued by the Chairperson of the FSC, at a total value of BGN 19,000. The total value of PWs issued by the Chairperson of the FSC, including PWs issued in previous years (until 2017), which at the end of 2019 are in the appeal phase, amounts to BGN 57,000.

Investment firms, central securities depository and regulated markets

In 2019 **the largest number of violations are found** of Art. 26, § 1, para. 1 in connection with § 2, para. 1, letter "a" of Regulation (EU) No 600/2014, a **namely: 87 violations related to the failure to fulfill the obligation for investment firms concluding transactions with financial instruments to submit a full and accurate report on these transactions to the competent authority**. In connection with the violations thus established, penal warrants were issued, imposing sanctions in the total amount of BGN 355,000 for 71 violations. A significant number are the established violations of Art. 72, § 2 in connection with Annex 1 of Delegated Regulation 2017/565, given the new legal framework.

During the reporting period with regard to the Bulgarian Stock Exchange AD and the Central Depository AD no acts for establishing administrative violations have been issued and no penal warrants or resolutions for termination of administrative penal proceedings have been issued.

Collective investment undertakings

In 2019 with regard to the management companies, a total of 80 AEAVs were issued and served for 77 administrative violations. A major part of the committed violations concerns disclosure of information to the supervisory body, as well as disclosure of information on the websites of the companies. During the reporting period, violations were established related to the investment restrictions regarding the assets in the CIS portfolio, incl. and those performed for reasons beyond the control of the MC

Public companies, Special Purpose Investment Companies and other issuers of securities

During the reporting period there was a significant increase compared to the previous period in the number of issued AEAVs (the issued and served acts were 459) concerning violations committed by public companies and issuers of securities. Because for a large number of companies the established violations were committed for the first time, as well as in view of the fact that by the end of the administrative penal proceedings the companies fulfilled their obligations, albeit with a short delay, 104 of the initiated proceedings were terminated due to insignificance on the basis of Art. 28 of the Administrative Violations and Penalties Act. Violators are warned that in case of repeated violations, their administrative penal liability will be engaged.

There is a tendency for the major violations committed by public companies and other issuers of securities to concern failure to submit or late submission to the FSC, BSE or the public of regulated information provided in the POSA. The main percentage of this type of violations are related to deficiencies found in the submitted annual financial statements. Another significant part of the violations concerns the failure to submit notifications on the financial position of the companies and six-month financial statements of the same.

Table 17. Most frequent violations in the sphere of PC, SPIC and other issuers of securities in 2019

Type and basis of the violation	Executed AEAVs	Issued PWs*
Failure to provide regulated information on a quarterly or six-month basis (Art. 100o and Art. 100o ¹ of the POSA)	165	22
Failure or delay of submission of annual financial statements on the activities of the PCs and the issuers, as well as with inaccurate content (Art. 100n, para. 1 of the POSA)	72	57
Failure to submit a report on the fulfillment of the obligations according to the conditions of the bond issue on a quarterly basis (Art. 100f of POSA)	33	3

Note: *The number of PWs issued in the reporting year includes both PWs issued on the basis of AEAV of the same year and PWs issued on the basis of AEAV during the previous year. This is due to the fact that the deadline for issuance of a PWs is six months after the date of issue of an AEAV according to Article 34, Paragraph 3 of the Administrative Offenses and Penalties Act.

Insurance and reinsurance

In 2018, **the main violations committed by the insurance companies were absence of conclusions on the insurance claims for payment of insurance compensation within the deadlines set out in Art. 108 and Art. 496 of the Insurance Code**, for which a total of 573 AEAVs were issued. A large number of violations of Art. 311 of the IC for failure of insurance intermediaries to submit reports within the statutory terms were also found. For these violations, 36 acts were issued, establishing 39 violations of Art. 311 of the Insurance Code.

Despite the fact that in 2019 the share of the established violations for absence of conclusions on the insurance claims for payment of insurance compensation within the deadlines set out in Art. 108 and Art. 496 of the Insurance Code is still the largest it should be noted **that in 2019 there is a certain reduction in the violations** of this kind. **This is due to the effectiveness of the measures applied by the FSC on 02.04.2019 in respect of three insurance companies**, as a result of the process of supervisory review carried out by the Commission, it was established that these insurers have committed systematic violations of the provisions of the Insurance Code, regulating the deadlines for ruling on claims. With the applied measures the companies were ordered to settle all their obligations, arising from claims under insurance contracts, within the statutory deadlines in the IC. The same decisions indicated a mechanism for improving the internal organization of insurers in order to prevent such violations. In addition, monitoring was imposed by the FSC to monitor progress in eliminating gaps and weaknesses in the activity of settling insurance claims.

Taking into account the findings made above to reduce the number of complaints received by the Insurance Supervision Division against delayed conclusions on insurance claims, as well as the significant reduction in the number of identified violations of this type, it can be concluded that the measures applied on 02.04.2019 by the FSC are effective.

Table 18. Most frequent violations in the sphere of insurance and reinsurance in 2019

Type and basis of the violation	Executed AEAVs	Issued PWs*
Failure of the insurer to issue a conclusion on an insurance claim filed within the statutory period of 15 business days from the submission of all relevant evidence (Art. 108, para. 1 of the IC)	329	508
Failure of the insurer to issue a conclusion on an insurance claim within the statutory period of three months as stipulated by the IC under a Motor Third-Party Liability insurance (Art. 496, para. 2 in connection with para. 1 of the IC)	46	53
Failure to provide statements within the statutory terms (Art. 311 of the IC)	36	14
Failure to provide a response to a claim by a beneficiary of insurance services (Art. 290, para. 2 of the IC)	6	29
Failure to submit a factual and legal justification of the amount of the determined compensation in case of a complaint filed by a user of insurance services (Art. 108, para. 6 of the IC)	8	21
Failure to provide the thematic financial statements and reports by the insurers within the statutory deadlines (Art. 126, para. 1 of the IC)	12	14

Note: *The number of PWs issued in the reporting year includes both PWs issued on the basis of AEAV of the same year and PWs issued on the basis of AEAV during the previous year. This is due to the fact that the deadline for issuance of a PWs is six months after the date of issue of an AEAV according to Article 34, Paragraph 3 of the Administrative Offenses and Penalties Act.

Supplementary pension insurance

In 2019, with regard to pension insurance companies, **8 AEAVs** were issued and served for established **8 violations** of SIC provisions, of which:

- **3 violations on the restriction on investing the assets of a supplementary pension fund in financial instruments issued by one issuer** (Article 178, paragraph 1, respectively Article 251, paragraph 1 of the SIC);

- **2 violations of the investment restriction** for a supplementary pension fund **in financial instruments issued by companies of one group and persons with whom these companies are in close relations** (Article 178, paragraph 2 of the SIC);

- **2 violations of Art. 126 of the SIC, namely failure to take care of a good trader when managing the funds of a supplementary pension fund** and one violation of Art. 177a, para. 3 of CSR (PIC and SPF cannot acquire shares issued by a collective investment undertaking)

3.4. Market abuse

With regard to the prevention of market abuse, **analysis of trading in financial instruments is carried out, as well as monitoring of the information disclosed to investors in line with regulatory requirements**, including by the issuers and the senior managers of the issuers and their closely related parties. Market abuse is disclosed through the continuous supervision of the trading of financial instruments admitted to trading on a regulated market or a multilateral trading system as well as through review of the data available to FSC and the information disclosed through various sources and different communication channels about

financial instruments admitted to the mentioned trading venues or their issuers. The process of trading analysis takes into account the characteristics of trading in each position such as liquidity, market depth, number and volume of transactions and monitors actions that meet the signs of market manipulation of financial instruments in Annex 1 of Regulation (EU) No 596/2014. In f necessary, information is exchanged with the BNB, with other state bodies and institutions, as well as supervisory authorities of other countries.

As a result of the performed inspections **in 2019, a total of 34 acts for establishing administrative violations (AEAVs) were issued, which established a total of 129 violations of Regulation (EU) No 596/2014.** These data indicate a significant increase in the suspicious activity of the FSC in this direction, as in 2018 14 AEAVS were issued regarding 47 administrative violations. During the reporting period A total of 15 PWs were issued for market manipulations, which imposed administrative penalties in the amount of BGN 277,000. in connection with committed 87 violations of Regulation (EU) No 596/2014.

Table 19. Most common violations related to unfair trading in securities, market abuse, inside information and insiders in 2019

Type and basis of the violation	Executed AEAVs	Issued PWs*
Market abuse in connection with failure to notify the FSC and/or the issuer of a transaction in financial instruments (Art. 19 of Regulation (EU) No 596/2014)	120	80
Market abuse related to the manipulation of the financial instruments market (Art. 15 of Regulation (EU) No 596/2014)	4	4
Market abuse related to the disclosure of insider information (Art. 17 of Regulation (EU) No 596/2014)	4	2
Market abuse related to failure to identify a suspicious order (Art. 16 of Regulation 596/2014)	1	1

Note: *The number of PWs issued in the reporting year includes both PWs issued on the basis of AEA V of the same year and PWs issued on the basis of AEA V during the previous year. This is due to the fact that the deadline for issuance of a PWs is six months after the date of issue of an AEA V according to Article 34, Paragraph 3 of the Administrative Offenses and Penalties Act.

4. Activities of the FSC for resolution of investment firms

The Financial Supervision Commission in its capacity as an authority for the resolution of investment firms under Art. 1, para. 1, items 2 – 7 of the Recovery and Resolution of Credit Institutions and Investment Firms Act (RRCIIFA) as proposed by the member of the FSC, exercises its functions for resolution of investment firms on an individual and consolidated basis, supported by a single structural unit. The scope of the RRCIIFA covers investment firms that carry out transactions at their own expense with financial instruments and perform services related to underwriting of issues of financial instruments and/or offering financial instruments for initial sale under the terms of an unconditional and irrevocable obligation to subscribe / acquire the financial instruments at their own expense, as well as those that store and administer financial instruments on behalf of clients, incl. perform custodian activity and related services.

In 2018, in accordance with Commission Delegated Regulation (EU) 2015/63 of 21 October 2014,¹⁸ the FSC as a Resolution Authority determined the annual contribution of every investment firm within the scope of the RRCIIFA to the Investment Firms Resolution Fund (IFRF) in accordance with Art. 102, para. 1 of Directive 2014/59/EU. Based on the requirements of Art. 10 of Delegated Regulation (EU) 2015/63, with a decision of the FSC are determined individual annual installments for 2019 for each investment firm with a full license in the amount of EUR 1,000 (BGN equivalent of BGN 1955.83).

During the reporting period with a decision of the FSC, according to the requirements of Art. 138, para. 2 and Art. 139, para. 4 of RRCIIFA, the target level of IFRF was set at BGN 207,610.05 and the total amount of annual installments for 2019 for investment firms licensed in the Republic of Bulgaria and branches of third countries covered by the RRCIIFA, amounting to BGN 36,963.23 .

According to Art. 7, para. 3 of the RRCIIFA, a review of adjusted recovery plans for investment firms covered by the RRCIIFA was carried out and recommendations were made to change the plans in order to identify any obstacles and actions that may adversely affect the possibility of restructuring them.

In 2019, the FSC decided to designate other systemically important institutions (O-SIIs) in accordance with the Guidelines of the European Banking Authority on the criteria for determining the conditions for application of Article 131 (3) of Directive 2013/36 / EU and Art. 86 of Ordinance No 50 on capital adequacy, liquidity of investment firms and supervision of their observance in connection with the assessment of O-SIIs. Following the application of the rating methodology for the assessment of O-SIIs under the Guidelines, a threshold was set and five of the investment firms were identified as other systemically important institutions.

In 2019, the application of the simplified requirements to investment firms and institutions under Art. 1, para. 1, item 3 - item 9 of the RRCIIFA, respectively for resolution according to the requirements of art. 25, para. 1 of the same act. After a detailed review and application of criteria set by the FSC Decision of 25.09.2017, a general rating threshold has been set. Simplified requirements do not apply to investment firms with a rating above the determined overall rating. Pursuant to item 20 of the preamble to the Guidelines on the Application of Simplified Requirements, investment firms defined as O-SIIs should be subject to the application of comprehensive rather than simplified requirements and should therefore be excluded from the list of investment firms that could apply simplified requirements for the purposes of recovery plans and resolution plans. Following the application of the threshold thus set and the application of the O-SII criterion

¹⁸ Commission Delegated Regulation (EU) No 2015/63 of the EC of 21 October 2014 supplementing Directive 2014/59/EU of the European Parliament and of the Council with regard to ex ante contributions to resolution financing arrangements

for 6 investment firms, it was determined that they should develop extended recovery plans and should not be subject to simplified requirements for resolution plans.

In July 2019, the European Banking Authority (EBA) was notified and all required EBA forms in accordance with the Simplified Requirements Guidelines were drawn up and sent in a timely manner.

In 2019, an amendment to the Recovery and Resolution Act was adopted, which enters into force on the day on which the decision of the European Central Bank for close cooperation under Art. 7 of Regulation (EU) No 1024/2013 entrusting the European Central Bank with specific tasks on policies related to the prudential supervision of credit institutions. The analysis carried out by FSC experts showed that none of the investment firms covered by the RRCIIFA falls within the scope of Regulation (EU) No 806/2014, and the FSC will continue to exercise its function of resolution authority for IFs, and the funds of IFRF will continue to be managed by the Investor Compensation Fund. In connection with the establishment of close cooperation with the European Central Bank and assessment of the need to transfer the funds accumulated in the IFRF, in 2019 the communication with the Single Resolution Board continued.

Directive(EU) 2019/879 of the European Parliament and the Council was adopted in 2019, amending Directive 2014/59/EU as regards the loss-absorbing and recapitalization capacity of credit institutions and investment firms and Directive 98/26/EC The transposition of the provisions of this Directive will lead to changes in local legislation concerning resolution.

5. Protection of the consumers of non-bank financial services

The Financial Supervision Commission is the institution whose statutory obligations and powers include the protection of the rights of users of non-banking financial services (investors, insured persons and secured persons).

Its main responsibilities and activities are: regulating the non-banking financial sector and taking measures for the stability of the capital, insurance and pension insurance market, and protection of the rights of the users of financial services.

Since its establishment in 2003, the FSC has set a policy of financial literacy for the public as one of its main priorities and has established a tradition in the realization of this priority.

The protection of users of financial services is realized in three main directions:

- implementation of adequate and timely regulatory and supervisory activities;
- financial literacy of the public through information campaigns, discussions and educational initiatives;
- by providing accurate and comprehensive information about the non-banking sector and the actions of the institution through various communication channels.

In 2019, the FSC made timely changes in the regulatory framework and supervisory activities, in line with European requirements and the specifics of the national market, with an emphasis on good business practices and with a view to equal treatment of supervised entities. The focus of the Commission's activity during the year was providing accurate and comprehensive information about the non-banking sector and the actions of the institution through various communication channels. This process, together with the implementation of a series of educational initiatives, helps to increase the financial culture and create preconditions for awareness in the choice of financial services by consumers.

5.1. Access to financial information

The provision of information by the FSC to the end users on the activities carried out by the Financial Supervision Commission on the one hand and on the participants in the non-banking financial sector (supervised entities) on the other is carried out through various communication channels, namely:

- publications on the Commission's two public websites: <https://www.fsc.bg/bg/> and <http://www.tvoitefinansi.bg/>;
- organization of media campaigns;
- participation with news, statements and media interviews;
- provision by the FSC Information Center of information to citizens and supervised persons on concrete and specific cases upon request.

The representative participation of the management and experts of the FSC in various public forums, round tables, national and international conferences and events further contributes to the sharing of current, analytical and prognostic information, as well as priority for discussion and sharing of good practices and examples.

Institutional page of the FSC – www.fsc.bg.

The website provides updated information on the regulatory and supervisory activities of the FSC, on the measures undertaken by the Commission for the financial stability of the non-banking financial sector. Information is also published for the supervised persons – statistics, reports, capital amount and other essential information about the activity of all supervised entities. FSC updates all of its sections on its website on a regular basis in order to inform consumers, supervised entities and all stakeholders in the country and abroad, including news, administrative documents, statistics, regulations, etc.

In addition to the constant updating of the content of the traditional sections during the year, some sections of the page were restructured, new sections were created, in which new content began to be published depending on the changed requirements of European supervisors, market participants and consumers.

In the European Issues section, a Brexit subsection has been created, and in the Useful information section, a section Information on the procedure for receiving reports of violations under IMMAFIA has been created. An entirely new concept for providing information was implemented in the section Supervised persons, division Notifications”, subdivision “Notifications sent by the FSC”.

As a transparent institution working in the direction of financial literacy and consumer protection, new sections have been created in the division “For the consumer”, namely: “Instructions for creditors to file claims against Insurance Company Olympic, Manual for deadlines for settling claims under the Insurance Code (IC) and Recognizing the licensed investment firm

In connection with the Financial Technology Monitoring Strategy (FinTech) in the non-banking financial sector (2018 – 2020) adopted by the Financial Supervision Commission, the development of division Financial innovations continued.

In the area of the capital market 8 summarizing materials were published during the year on the average daily number of transactions for the issues of shares admitted to trading on the Bulgarian Stock Exchange.

For the supplementary pension insurance, regular quarterly statements, statements of the rate of return of the supplementary pension funds on an annual basis, the results of the changes in the holding and the transfer of insured persons’ funds from one pension fund to another, materials for the funds accumulated in the supplementary pension funds were summarized in 17 publications during the year.

In the field of insurance, periodic updated were carried out of the lists of Bulgarian and foreign insurers and insurance brokers, the insurers and insurance intermediaries from the EU Member States that had informed the FSC they wish to carry out activity on the territory of the Republic of Bulgaria, as well as the lists of Bulgarian insurers and reinsurers intending to carry out insurance activities on the territory of the EU. Fifty materials with insurance statistics have also been published.

Regulatory documents from the European legislation, directives of the European Parliament and Council of the European Union, regulations and decisions of the Council and of the European Parliament were published in the European Affairs section.

Through the e-portals, which are located on the FSC's website, participants in the non-banking financial sector submitted the information required by the Commission – statements, reports, etc., signed with an electronic signature. The information submitted through the e-modules was presented to the public through the public register which is accessible on the website under the “Electronic Register and chart (ERiK) and News from e-Register subsections.

An important point, in order to improve the communication policy of the FSC, was the preparation of an analysis by the Public Relations and Protocol Directorate for the positioning of the institutional site of the FSC in the public space. The activity of the users by cities and countries, by age and sex is being monitored, as well as which are the leading access channels and through which social networks the site is accessed. The communication policy conducted by 30 institutions in Europe that supervise the banking and non-banking sectors was analyzed, and it was observed that most institutions have their own channels and pages on social media. As a result of the analysis, the Public Relations and Protocol Directorate proposed to the management to start working on the development of FSC pages on social media and in this regard a FSC profile was created on YouTube in order to improve the public image of the FSC.

Proof of the good communication policy during the year is the large number of visitors to the FSC website. In 2019, the number of visitors to the official website was 159,699, with the average number of visits per day being around 1,500.

The FSC's website Your Finance – <http://www.tvoitefinansi.bg>

The second website maintained by the FSC is “Your Finances”, which was created for the purpose of more accessible explanations for servicing the users of financial services and acquainting them with the main specifics in the three sectors of supervision carried out by the FSC. The site describes in detail various financial products, divided into insurance, pension and investment. Information on consumer rights and advice given on various cases is also published. The materials have an educational focus, and for this purpose a test has been developed that takes into account the level of financial literacy, as well as a financial dictionary. In 2019, the information on the site was completely updated and up-to-date materials were published in order to inform and protect the users of financial services.

Information Center

In 2019, the Information Center of the Financial Supervision Commission served a larger number of citizens and supervised entities compared to previous years. Every day the Information Center receives inquiries from both supervised persons and citizens who need information on issues and cases on various topics. These inquiries are received at the special toll-free hotline: 0800 40 444, by e-mail or on-site visits.

In 2019, the total number of calls received at the FSC Information Center was 5397. Of these, 2564 inquiries are related to the three areas of the non-banking financial sector, and 2833 are calls related to administrative issues. There are 339 visits by citizens on the spot.

By months, there were 926 telephone inquiries January, 775 in February, 560 in March, 488 in April, 430 in May, 359 in June, 434 in July, 273 in August, 167 in September, 237 in October, 375 in November and 373 in December.

The most frequently asked questions by stakeholders are related to filing a complaint, checking the status of voucher books, submitting reports in e-portals by insurance companies, insurance agents and insurance brokers, sending reports in e-modules by supervised entities, payment of a fee for general financial supervision, entry of documents in Record Keeping, deadlines for submission of declarations under the various regulatory requirements and documents, registration, registration and termination of insurance brokers. In the reporting period, inquiries were received from supervised persons in connection with acts, invitations, decisions, opinions and initiated administrative proceedings.

Given the growing number of calls, as well as on-site visits to the Commission, it should be summarized that the FSC Information Center is becoming increasingly popular for both citizens and non-banking market participants.

Using part of the internal communication channels, the Information Center provides expert assistance to those who have sought information and assistance. The result of the effectiveness of the FSC Information Center is the maintenance and strengthening of the positive image of the Financial Supervision Commission.

Participation of the members of the FSC at financial forums in Bulgaria.

In 2019, the Chairperson of the Financial Supervision Commission took part in many important economic events at the national level. The first of them was the international conference on: “Multi-pillar pension systems in Europe - benefits and future” on April 12, organized by the Bulgarian Association of Supplementary Pension Insurance Companies (BASPSC) and the Board of Directors of the Federation of European Pension Associations (PensionsEurope).

On May 30, 2019, an awards ceremony was held: “Insurer of the Year”, “Pension Insurance Company of the Year” and “Insurance Broker of the Year” with co-organizers University of Insurance and Finance (VUZF), the Association of Bulgarian Insurers (ABI), the Bulgarian Association of Supplementary Pension Insurance Companies (BASPSC), Prof. Dr. Veleslav Gavriyski Foundation and the Bulgarian Association of Insurance Brokers (BAIB). The event was attended by the Chair of the FSC Boyko Atanasov, who was accompanied by all members of the FSC: Deputy Chairpersons Diana Yordanova, Iliana Hristova and Maria Filipova and Vladimir Savov - Member of the FSC.

The Chair of the Commission opened the largest event of the investment community in Bulgaria and the region - Investor Finance Forum, organized on 29 November 2020, and three experts from the FSC participated in various panels and discussions in the field of investment and finance.

Mr. Boyko Atanasov also took part in the graduation ceremony of the students from VUZF - class of 2019, which was held on 3 December 2019, which established a close link between the Commission and the future realization of expert economists in their path from the academic bench to practice.

Indicative of the close cooperation and active dialogue between the FSC and the branch associations was the participation of Iliana Hristova - Deputy Chairperson of the Financial Supervision Commission in charge of the Insurance Supervision Division, and Diana Yordanova - Deputy Chairperson of the Financial Supervision Commission in charge of the Insurance Supervision Division, in the event organized by the Association of Bulgarian Insurers (ABI) and the Bulgarian Association of Insurance Brokers (BAIB) on 1 October 2019, on the occasion of the National Insurer's Day.

FSC employees took part in a number of national and international seminars and discussion meetings.

Media communications

In 2019, active communication was carried out with the media, using various channels in order to inform consumers of financial services and increase public confidence in the activities of the Commission. During the year, 206 news items were published on the website and 40 press releases were sent. Answers to journalist questions are provided on a daily basis.

In 2019, three significant information campaigns were carried out, in connection with which a number of concrete actions were taken. The information campaign on the case with Olympic Insurance Company continued with the creation of the new section “Guidelines for creditors for filing claims against

Olympic Insurance Company”, which periodically published materials with explanatory information concerning the insured persons in Olympic Insurance Company. Other information campaigns that aroused great public interest were “How to Recognize the licensed investment firm”, together with the Bulgarian Association of Licensed Investment Firms (BALIF), and an explanatory campaign in connection with the bonus-malus system.

During the year a number of interviews were conducted in electronic and print media. One of the first landmark interviews was with Mr. Boyko Atanasov in “24 Hours” after his election as Chairperson of the FSC, namely: “We will rely on preventive control, not on reactions in crisis situations.” This interview can be seen as a strategy for the development of the Commission under the leadership of Mr. Atanasov. Iliana Hristova, Deputy Chairperson of the Financial Supervision Commission, stated her position after her election as Head of the Insurance Supervision Division with the interview in “24 hours” entitled “I will urge the Guarantee Fund to fulfill its obligation and prepare the methodology as soon as possible”.

FSC representatives gave a series of interviews in the electronic media in connection with the campaign “How to Recognize the licensed investment firm” in order to distinguish between licensed and unlicensed investment firms and prevent fraud by unlicensed persons. The Director of the Public Relations and Protocol Directorate was a frequent guest on the morning block of Bulgaria on Air and explained the Commission's actions to prevent the activities of unlicensed persons who mislead consumers.

Press conferences were also held, the most significant of which was on the occasion of the forthcoming bonus-malus ordinance on December 16, 2019.

Proof of the active media policy is the number of publications on the activities of the FSC in the media - a total of 9605 during the year, 91 in television, 780 in the press, 44 on the radio and 8690 on the Internet.

In 2019, the FSC prepared two issues – a FSC Newsletter (twelve regular issues) and the Annual Report of the Financial Supervision Commission for 2018 summarizing the activities of the supervisory institution and reflecting the state of the non-banking sector in Bulgaria in 2018.

The FSC's monthly newsletter offers summarized information on the activities of the Commission by months - regulatory and supervisory, it provides information for all decisions of the FSC, the decisions of the Members of the FSC and all the entries during the month. The newsletter is issued in electronic form in the middle of each month, summarizing information for the previous month, and is published on the Commission's official website.

In order to receive feedback from the media, two monitors are prepared daily - a review of media publications related to the activities of the FSC and the leading financial, economic and political news. A total of 535 monitors were prepared for the year.

In 2019, 11 applications were received at the FSC under the Access to Public Information Act (APIA), 8 of them being submitted by citizens of the Republic of Bulgaria, 1 by a company and 2 by non-governmental organizations. 10 of them were dealt with in time, one received a reply after the deadline. For 7 of them information was provided, one was forwarded to another institution, one received a notification for lack of the requested public information and one received a refusal to provide information.

5.2. Complaints and inquiries by users of non-banking financial services

Consumer protection policy is an important area of the European Commission's work.

The European Consumer Policy for 2014-2020 with set benchmarks was formulated in Regulation (EU) No. 254/2014 of the European Parliament and of the Council of 26 February 2014 on a multiannual consumer programme for the years 2014-2020.

Policy implementation measures should ensure the achievement of four specific objectives - consumer security, provision of information to consumers and dissemination of knowledge through education, settlement of consumer rights and settlement of consumer damages claims, more effective law enforcement . The implementation of the multi-annual program envisages the involvement in the process of protection of the consumers themselves, as they must know their rights and be well protected.

The long-term goals are achieved by ensuring the right to choose, to information and awareness of consumer rights and remedies.

Consumer protection policy is an element of the EU's single internal market.

The possibility of filing complaints as well as receiving compensation is an integral part of consumer protection policy. Consumers need to understand their preferences and be able to make their choices, they need to understand what their rights are, they need to know when they have been violated and to file complaints, to seek redress if necessary.

In recent years, with the spread of the Internet, the situation regarding access to information, both in terms of its volume and complexity, has changed dramatically and consumers can receive a lot of information about their rights and protection options, but on the other hand, users ignore the need to process this information, pressed by time. In these circumstances, a large number of consumers are at risk of misleading and fraud. Given the asymmetry of information and knowledge between suppliers of goods and services and consumers, the role of public institutions in protecting the rights of vulnerable groups is increasing, and they must require businesses to fulfill their obligations.

At European level, a strategy has been adopted to strengthen the single European retail financial services market, to create a wider and fairer common market, including through digital means. It sets goals such as increasing consumer confidence and providing opportunities when buying services from home or another Member State, supporting the development of an innovative digital world that can overcome some of the existing barriers to the common market.

In accordance with this program, in the European regulatory documents regulating the activity of the persons supervised by the FSC, provisions have been developed and adopted, related to the distance sale of financial services and to the protection of the rights of the consumers. These provisions, which are also part of the Bulgarian legislation, pay special attention to the protection of consumers, including consumers from vulnerable groups. The handling of consumer complaints against the actions of service providers is regulated, and some of them even provide guidance on the content of the responses to complaints.

The protection of consumers of financial products and services is one of the statutory objectives of the Financial Supervision Commission. And one of the functions of the FSC Member under Art. 3, item 5 of the FSCA is the consideration of complaints filed against persons supervised by the Commission, as well as against persons who provide financial products and services without a permit.

In line with the European strategy for consumer protection to enable out-of-court settlement of disputes in Bulgarian legislation, this possibility is provided for in the Consumer Protection Act. Sectoral conciliation commissions have been set up to deal with disputes between consumers and service providers in the non-banking financial sector - in the field of insurance, in the field of pension insurance, in the field of capital markets. Out-of-court dispute resolution is an alternative to resolving disputes between users and supervised

persons of the Commission. Proceedings before the sectoral conciliation commissions are free of charge, which allows consumers with small claims to claim their rights.

In order to inform individual consumers about the possibility of out-of-court settlement of a dispute in the answers to the complainants, the FSC shall provide information on the existence of such a mechanism, if they are not satisfied with the decision of the supervised persons or the relevant sectoral conciliation commission.

In order to perform an analysis of the complaints received by the Commission from users, the results of which should be used to improve the supervisory activity, to improve the regulatory framework, the FSC has established a procedure for managing the processing of complaints. Each received complaint is inspected, in case of established violations acts for establishing administrative violations are issued, recommendations are made to the supervised persons, coercive measures are imposed, actions and measures are taken within the legal powers of the FSC bodies.

Consumer complaints play an important role in market discipline. They are one of the channels for receiving information by the regulator about compliance with the regulatory requirements for the activities on financial markets monitored by the FSC, as well as the behaviour of market participants on financial markets. The actions performed by the FSC in connection with the received complaints discipline the market. Consumers of financial services receive useful information for decision-making.

Complaints were also a channel for market feedback about the satisfaction of users of financial services and products from the actions of the regulator resulting from the inspections performed and measures undertaken as a consequence of their complaints. The analysis of the feedback gives the regulator an idea of the level of awareness and financial literacy of consumers, as it is an important element for the formation of its policy for supervision of the non-banking financial sector.

The undertaken corrective actions by the FSC's bodies as a result of the analysis was the basis for establishing and maintaining a high level of confidence of consumers in financial products and services offered on the financial markets, and maintain the sense of security for consumers in using the products and services offered on the non-banking financial market. Corrective actions help to preserve the stability of financial markets, the confidence in these markets, act as incentive for the efficiency and transparency of financial markets.

The analysis of complaints, as well as inquiries, covering the main complaints and issues raised in them, the analysis of the main reasons that led to the emergence of the issues raised in the complaints and inquiries, highlighting systemic problem areas, possible poor commercial practices, are also excellent tools for making management decisions with a view to improving the regulatory framework, supervisory practices and for taking appropriate corrective actions and measures regarding the participants in the financial markets supervised by the FSC.

In 2019, the FSC received 1,492¹⁹ complaints and inquiries related to the activity of persons supervised by the FSC. There is a significant decrease in their number in 2019 compared to 2018, when they were 1,943. On the one hand, the decrease can be explained by market discipline, improvement of the market behavior of the providers of financial services and products, more careful and correct attitude of the providers of financial services and products, supervised by the FSC, towards the consumers. On the other hand, it may be due to the Commission's policy of providing information on its legal powers, on the ability of consumers to resolve disputes with suppliers.

Analyzing the statistical information on the complaints submitted to the FSC for the period 2013 - 2019, it can be said that there is no clear trend in the number of complaints and inquiries received by the FSC. The number of complaints in 2013 was 1,356, in 2014 - 1,369, in 2015 they were 1,242, in 2016 - 1,274. In 2017, the number of complaints and inquiries from users increased to 1,438, and in 2018 it reached its highest value (1,943), after which in 2019 it decreased again to 1,492 complaints and inquiries received in FSC.

The presented analysis of the complaints for 2019 is based on 1 203 received²⁰ complaints on which the institution is competent to rule.

With respect to the complaints within competence for the period from 2013 to 2017, there was no clear upward or downward trend in their number. In 2013, 1,125 complaints were reported, in 2014 - 1,133, in 2015 - 1,026, in 2016 - 1,089. In 2017, their number increased to 1,415,

and in 2018 - to 1,656 complaints by jurisdiction. In 2019, there is a significant decrease compared to the previous two years to 1,203 complaints on which the FSC is competent to rule.

In addition to complaints, the FSC also receives numerous inquiries on which the institution is competent to rule. Inquiries are processed mainly in the specialized administration and the accumulated information in the internal database does not give an accurate picture of this type of files. In 2019, only 17 inquiries were registered in this database.

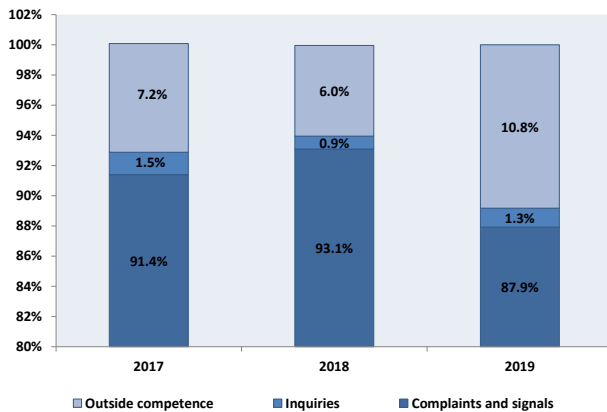
The FSC also receives complaints for which the institution is not competent to rule.

Analyzing the statistical information from 2013, it can be seen that the number of complaints falling outside the competence of the FSC began to decrease from 2015 to 2018 and varied about 100 per year with slight deviations. In 2013, 2014 and 2015 they were respectively 130, 150, 142 units, with the highest growth registered in 2015. Already in 2016 there is a decrease compared to 2015 by 32 units. In 2017, compared to 2016, a minimum increase of 2 complaints was registered. For 2018 they are 106, while in 2019 there is another increase to 146. Their number is approaching the peak reached in 2015. The FSC processes complaints outside its competence in a timely manner and forwards them to the relevant competent institutions. This may be one of the reasons for the increased number of such complaints - in case the complainant does not know to whom to direct their complaint, they submit it so that it can reach the right institution for consideration.

¹⁹ The indicated 1,492 complaints are calculated by excluding from 1,638 (total received) files, the complaints and inquiries, which are not against actions of persons supervised by the FSC. The value of 1,492 represents received complaints and inquiries within competence within 2019, 289 of them were processed by the specialized departments, with letters from the office of the FSC to the respective complainants.

²⁰Directed to and processed by the unit that processes complaints.

Graph 1. Dynamics of complaints, inquiries and signals filed with the FSC



Source: FSC.

Complaints on which the institution was competent to rule represented 87.9 % of the total complaints and inquiries in 2019. In 2019, compared to 2018, there was a slight decrease in the proportion of complaints for which the institution was competent, from 93.1% to 87.9%.

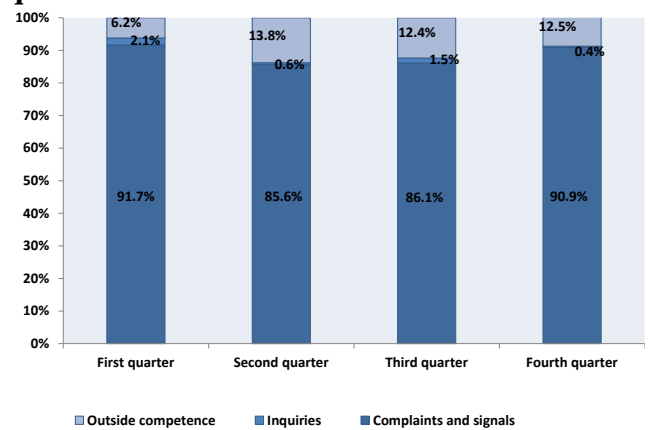
For comparison, in the period 2013 - 2019 this share is relatively constant, over 80%. In 2019, a slight decline was registered compared to 2018 to 87.9%. For comparison, the share of complaints within competence ranges as follows: from 83% in 2013, 82.8% in 2014, 82.6% in 2015, 85.6% - in 2016, 91.4% in 2017, 93.1% in 2018

The share of inquiries has varied between 7.4% and 0.9% since 2013, and their share has been declining. In 2013 their share was 7.4%, in 2014 - 6.3%, in 2015 - 6%, in 2016 - 5.9%, in 2017 - 1.5%, in 2018. decreased to 0.9%, and in 2019 a certain increase to 1.25% is reported. The share of complaints for which the institution is not competent, after the period of increase until 2015 varies within narrow limits until 2018 and marks an increase for 2019. The share of these complaints in 2013 was 9.6%, in 2014. - 11%, in 2015 - 11.4%, in 2016 - 8.6%, in 2017 - 7.2%, in 2018 it is 6.0%, and in 2019 - 10.8% of the total share of received complaints and inquiries.

In 2019, the overall picture of the ratio between complaints, inquiries and complaints for which the institution is not competent is maintained by quarters. Complaints within the competence of the FSC represent 90.9% of all complaints received in the first quarter of 2019. Their share increased to 91.7% in the second quarter, and in the third quarter of the year decreased to a minimum of 85.6%. In the fourth quarter the same share of 90.9% compared to the first quarter remained.

The dynamics of the number of complaints of incompetence during the year does not show a clear trend. In the first quarter of 2019 they had the lowest share, namely 6.2% of all received complaints, in the second quarter they increased to 13.8%, and in the third quarter they were 12.4%, and the same level was maintained in the fourth quarter. with a share of 12.5%.

Graph 2. Dynamics of complaints, inquiries and signals filed with the FSC by types and quarters



Source: FSC.

Of the analyzed 1,203 complaints received in 2019, for which the institution is competent, most are complaints against actions of persons operating in the insurance market. Their number is 964. The number of complaints related to the services offered on the social insurance market is insignificant - 13. There are 209 complaints

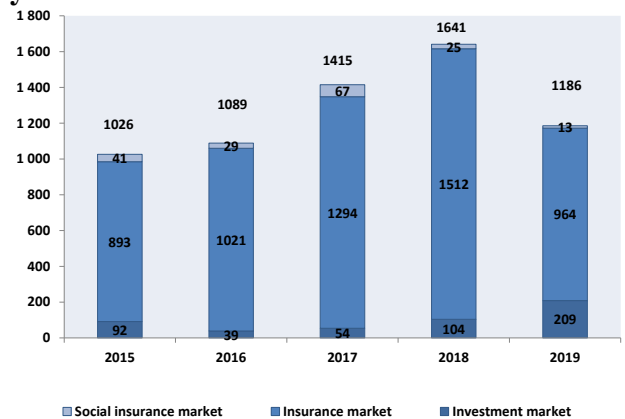
against actions of persons operating on the investment market.

In 2019 compared to 2018 there is a decrease in complaints concerning the insurance market by 548. This decrease is by 36.24% compared to 2018. For comparison, in 2018 compared to 2017 there is an increase in complaints from the insurance market by 14.41%.

The trend of decreasing the complaints on the insurance market has been observed since 2013 with one break in 2017. In 2013 the number of complaints was 171, in 2014 they were 96, in 2015 they dropped to 41, in 2016 they decreased further to 29. For 2017 they increased to 67, while in 2018 there is another decrease to 25. In 2019, the tendency to reduce the number of complaints continues and they reach only 13.

For the period 2013 - 2019, no clear trend can be defined in the number of complaints received in connection with the services and products offered on the investment market, with significant deviations in different years. Their number for 2014 is 102, for 2015 - 92 pieces, for 2016 - 39 pieces, for 2017 - 54 pieces, in 2018 it increases to 104 pieces, and in 2019 they are already 209 pieces. During the last three-year period 2017 - 2019, there is a tendency for a double increase in the number of complaints received in connection with the services and products offered on the investment market. This increase is a result of an increase in the number of complaints against actions of persons who do not have a license to perform activities for the provision of investment services and activities.

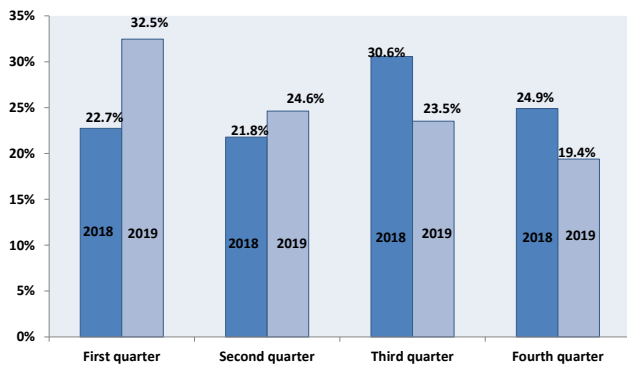
Graph 3. Dynamics of complaints at the FSC by markets



Source: FSC.

Within 2019, by quarters, there is no clear trend to increase or decrease the number of received complaints within the competence of the FSC. They are distributed as follows: in the first quarter of 2019, 32.5% of the complaints within competence for the year were received. Compared to the same period of 2018, this share is higher. In the second quarter of 2019, 24.6% of the total number of complaints within competence for the year were received, and compared to the same period of 2018 no significant change was observed. In the third quarter of 2019, 23.5% of the complaints were received, while in the third quarter of 2018 they represented 30.6%. In the fourth quarter of 2019, 32.5% of the complaints were received. For comparison, in the fourth quarter of 2018 the share was 24.9%.

Graph 4. Dynamics of complaints filed with the FSC by quarters



Source: FSC.

Complaints related to the insurance market represent the largest share of received complaints within competence in 2019 - 81.3%. For the period 2013 - 2019 this level is maintained. For comparison, the share of this type of complaints during the period is as follows: in 2013 - 79% in 2014 - 82.5%, in 2015 - 87.0%, in 2016 - 93.8%, in 2017 - 91.4%, and in 2018. - 92.1%.

The share of complaints related to the social insurance market in 2019 represents 1.1% of all received complaints within competence and their share decreases compared to 2018. The share of complaints from the insurance market in the last few years is relatively small. In 2018, they are 1.5% of all complaints within competence, in 2017. - 4.7%, in 2016 - 2.7%, in 2015 - 4%, in 2014 - 8.5%, and in 2013 their share was the largest - 15.2%, when a serious increase in complaints was registered in connection with the transfer of accumulated funds in the accounts of insured persons.

Complaints against persons operating on the investment market in 2019 were 17.6% of all complaints received and increased compared to 2018, when their share was 6.3%. For the period 2013 - In 2018, there is no clear trend in the share of investment complaints in the total number of complaints received by the FSC: their share in

2017 was 3.8%, 3.6% - in 2016, 9% - in 2015 and 2014 and 6.0% in 2013

The FSC also receives complaints related to the provision of investment services by persons who do not have a license to provide such services. The services are usually provided through electronic platforms, remotely, the complainants have not been active, have not checked whether the persons with whom they enter into contractual relations have the right to provide investment services and activities, do not have sufficient knowledge of the financial instruments in which they have decided to invest, they are not aware of the risks associated with the provision of their funds. They transfer funds to persons other than those with whom they have entered into a contractual relationship. Complaints are often submitted to the FSC by foreign persons due to the connection of electronic trading platforms in some way with Bulgaria, for example.

The distribution of complaints by sectors is maintained by quarters in 2019. In the first quarter of 2019 the share of complaints related to the insurance sector was 26.3%, in the second quarter - 19.9%, in the third quarter - 18.7%, and in the fourth quarter - their relative share is the lowest - 16.4%. Complaints against actions of pension insurance companies have an equal relative share in each quarter of 2019. Complaints from the investment market have the highest relative share in the first quarter of 2019, and the lowest - in the fourth quarter of the year.

Table 20. Dynamics of the structure of complaints by market segments

	2016	2017	2018	2019				2019
				Q1	Q2	Q3	Q4	
Insurance market	93.8%	91.4%	92.1%	26.3%	19.9%	18.7%	16.4%	81.3%
Investment market	3.6%	3.8%	6.3%	5.9%	4.5%	4.4%	2.8%	17.6%
Social insurance market	2.7%	4.7%	1.5%	0.3%	0.3%	0.3%	0.3%	1.1%

In 2019 the FSC also received complaints for which the institution is not competent to rule. The largest share of complaints a falling outside the competence of the FSC are complaints related to credit products - 23.3%, some of which were

provided by non-bank credit institutions. In second place are the complaints related to remittances - 2.7%. Complaints related to savings products and mobile services account for a relative share of 1.4% and 0.7%, respectively, and others - 71.9% of the total.

Table 21. Structure of complaints falling outside the competence of the FSC in 2019

	2018	2019
Credit products	34.9%	23.3%
Money transfer	20.8%	2.7%
Savings products	0.0%	1.4%
Mobile services	0.9%	0.7%
Taxes	0.9%	0.0%
Others	42.5%	71.9%
	100.0%	100.0%

In 2019, the FSC maintained its practice to redirect the complaints not within the competence of the FSC to the competent institutions.

In 2019, the FSC received complaints outside its competence, which are mainly within the competence of one institution in the country. Most complaints are within the competence of the Bulgarian National Bank (BNB), and their share is 63.7%. In 36.3% of the complaints outside the competence of the FSC, the competent body is the Consumer Protection Commission, CRC, Court, Prosecutor's Office, SANS and others.

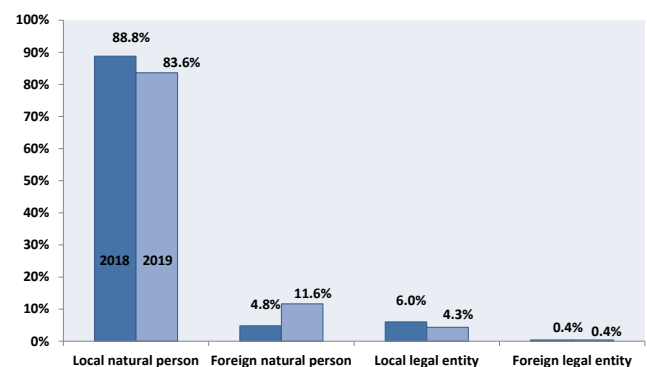
Table 22. Structure of complaints by competent institutions other than the FSC in 2019

	2018	2019
Bulgarian National Bank	57.6%	63.7%
National Revenue Agency	5.6%	0.0%
CRC, CPC, Court, Prosecutor's Office, completely outside competence	36.8%	36.3%
	100.0%	100.0%

Analyzing the complaints of consumers in 2019 by legal entities, it can be said that the complaints and inquiries submitted by local individuals have the largest share of all received complaints and inquiries - 83.6%. Local legal

entities have a share of 4.3%. Foreign individuals have a share of 11.6%, and foreign legal entities - 0.4%. A decrease in the share in 2019 compared to 2018 is reported for local individuals, as it decreased from 88.8% to 83.6%. A slight decrease in the share is also reported for local legal entities from 6.0% in 2018 to 4.3% for 2019. For foreign individuals there is an increase in the relative share to 11.6% for 2019 compared to 4.8% in 2018, which is due to the openness of the financial markets, the cross-border provision of financial services remotely via electronic platforms, as well as the offering of various financial products via the Internet. In 2019, there is an increase in complaints to the FSC filed through lawyers. There is a preservation of the relative share of foreign legal entities.

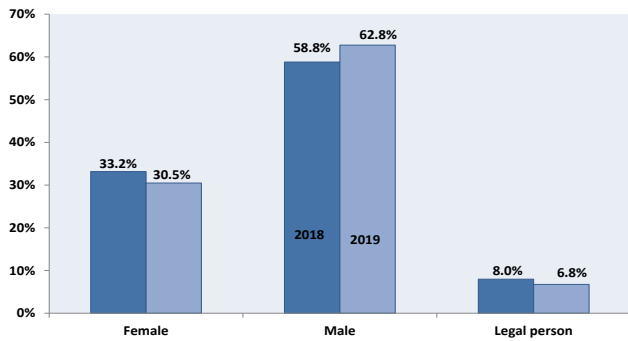
Graph 5. Dynamics of complaints, inquiries and signals by legal entities



Source: FSC.

The analysis of the complaints in terms of which persons are more active in seeking their consumer rights shows that men are more active complainants than women. Their share in 2019 is 62.8% compared to 30.5% for women. The complainants that are legal entities accounted for 6.8% of all complaints and inquiries. The general picture compared to 2018 does not change, as again men are more active - with a share of 58.8% and women with a share of 33.2%.

Graph 6. Dynamics of complaints, inquiries and signals by legal entity and gender

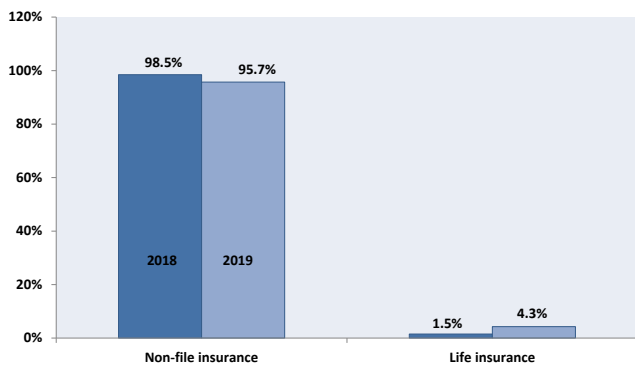


Source: FSC.

Insurance market

The trend for the complaints relating to the insurance market to have the highest relative share remained in 2019. Complaints against services and products offered by the non-life insurance companies continue to occupy a major part of the complaints concerning the insurance segment, and their share is 95.7% in 2019, compared to 98.5% in 2018. The higher share of complaints against non-life insurance companies was due to the higher number of non-life insurance contracts. The proportion of complaints relating to products and services offered by life insurance companies increased from 1.5 % in 2018 to 4.3% in 2019. This increase is also related to the conclusion of a larger number of insurance contracts in this sector.

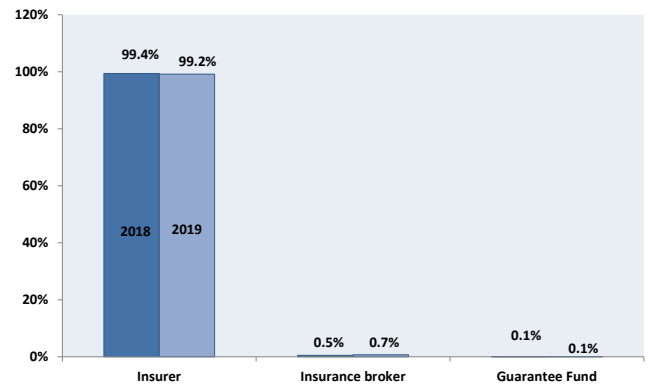
Graph 7. Dynamics of complaints related to non-life and life insurance



Source: FSC.

The analysis of complaints in the life insurance sector in terms of the entity against which they were filed showed that usually the complainants expressed grievance over the insurers’ actions. In 99.2% of the received complaints against entities acting on the insurance market, the subject of the complaint concerned the activity of the insurers. The share of these complaints in 2019 is close to the one in 2018 (99.4%). During the year, the complainants also complained about the actions of insurance brokers and the Guarantee Fund, however their share was insignificant and decreasing.

Graph 8. Dynamics of complaints in terms of supervised entities operating on the insurance market



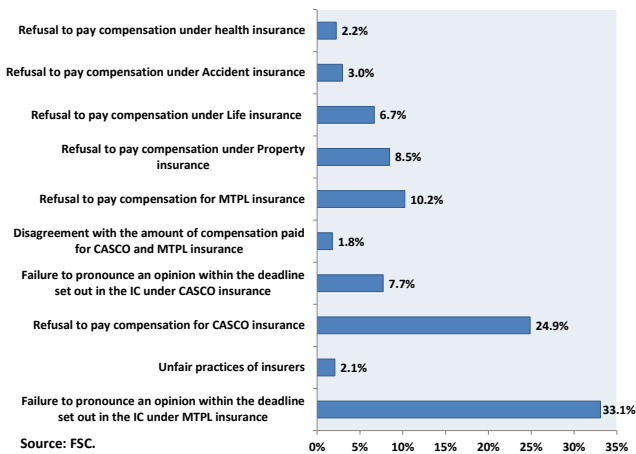
Source: FSC.

Most often the subject of complaints concerning the insurance sector was related to failure to issue a conclusion under insurance claims within the deadlines of the Insurance Code (IC) regarding Motor Third-Party Liability insurance (33.1%). Secondly, the applicants complained against the refusal to be paid compensations under Casco insurances (24.9%). In the third place were complaints in which applicants objected to the refusal to pay compensation under Motor Third-Party Liability insurance, which accounted for 10.2 %. The applicants also objected against unfair practices of the insurers, failure to rule on a submitted

insurance claim under Casco insurance within the time limits of the IC, disagreement with the amount of indemnity paid under Casco and Motor Third Party Liability, Property insurance, Life insurance, Accident insurance and Health insurance

In 2018 as well, the most frequent subject of the complaints related to the insurance sector was against the failure to rule on insurance claims under Motor Third-Party Liability within the periods of time stipulated in the IC.

Graph 9. Distribution of complaints in the insurance market by subject of complaint in 2019

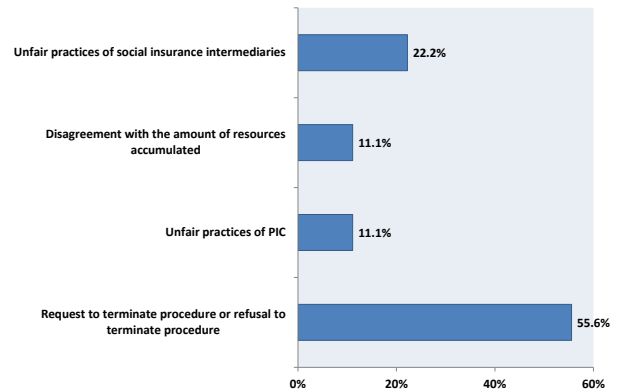


Social insurance market

A request for termination of the procedure or refusal to terminate the procedure for transfer of participation in a pension fund is the most common subject of complaints related to the social insurance market in 2019. Their share is 55.6% of all received complaints in connection with the social insurance market. In second place are unfair practices by insurance intermediaries (22.2%), the complainants complain about incorrect practices of pension insurance companies (11.1%), disagreement with the amount of accumulated funds (11.1%) occupy the fourth place in the frequency of complaints against actions of persons operating on the insurance market.

For comparison, in 2018 unfair practices by insurance intermediaries was the most common subject of complaint from the social insurance market.

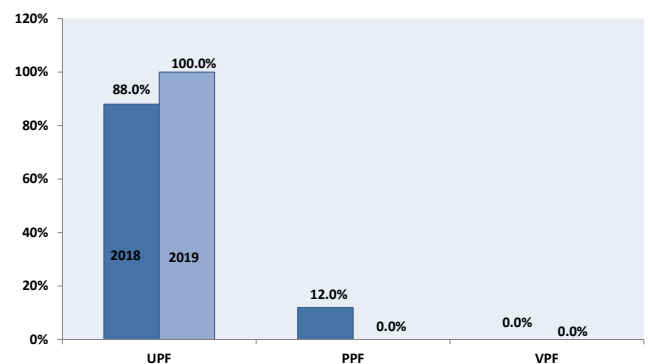
Graph 10. Distribution of complaints in the social insurance market by subject of the complaint in 2019



Source: FSC.

The trend of complaints related to the social insurance market and concerning mainly universal pension funds (UPFs) remained unchanged in 2019. Their share was 100.0% of all complaints received in relation to the social insurance market. This predominant share was explicable because all workers born after 31.12.1959 were secured in UPFs. There were no complaints registered in 2019 in relation with OPFs and DPFs.

Graph 11. Distribution of complaints in the social insurance market by types of funds



Source: FSC.

Investment market

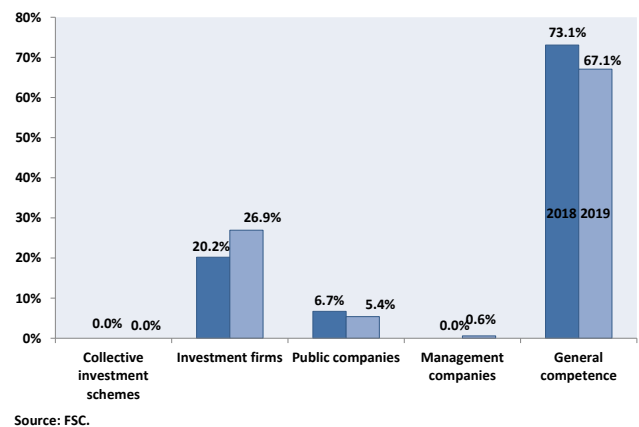
A significant number of the complaints concerning the investment market were related to the provision of investment services by companies which had not received the relevant license. In this regard, the FSC focused its efforts on taking actions to limit the supply of investment services by non-licensed companies and to create a competitive environment with adequate investor protection for the development of the investment business. The official website of the Commission publishes the persons who were found to carry out an investment activity without a license, and the relevant law enforcement authorities had been notified.

From the analysis of the complaints received it was established that there was a tendency for increased activity in the remote sale of investment products – on the telephone or via electronic platforms, as well as of complex financial instruments that were difficult for retail users to understand and for which, according to the legal requirements, an assessment of the pertinence and appropriateness of the financial service.

In 2019, most complaints from the investment market are against actions of unlicensed companies, many of them are not based in Bulgaria. Their share in 2019 amounts to 67.1%. In second place in 2019 are the complaints against investment firms or persons providing investment services and products (26.9%), and in third place are the complaints related to public companies (5.4%).

Compared to 2018, in 2019 there is a decrease in complaints related to public companies from 6.7% to 5.4%. The main subject-matter of these complaints relates to tenders, in particular against the price of the tender. The opposite dynamics is reported in the complaints related to the activity of the management companies, as their share increases to 0.6% in 2019 from 0% in 2018.

Graph 12. Distribution of complaints in terms of supervised entities operating on the investment market



Results from the processing of complaints, signals and inquiries in the FSC

The Financial Supervision Commission registered and reviewed every complaint, signal or inquiry received by the institution. Detailed examination was carried out in the consideration of each specific case, entities against which the complaint was performed were required to provide explanations and the relevant documents in each particular case, including any additional documents and explanations. The necessary measures and actions were taken during the examination in case a violation of the legal requirements by the supervised entity is found, then administrative violation acts are issued, coercive measures are applied, instructions are given.

The analysis of the responses to the complainants against actions on the insurance market revealed that in 34.99% of cases the consumers of insurance services were advised on the possibilities to protect their rights through sectoral conciliation commission for extrajudicial dispute resolution or by the court in case the FSC does not have the authority to undertake any actions. In 20.1% of the cases, insurance compensations were paid after a complaint had been filed to the FSC, and in 131% of the

complaints, the complainants were given specific information relevant to the details of the complaint that was helpful to the complainants.

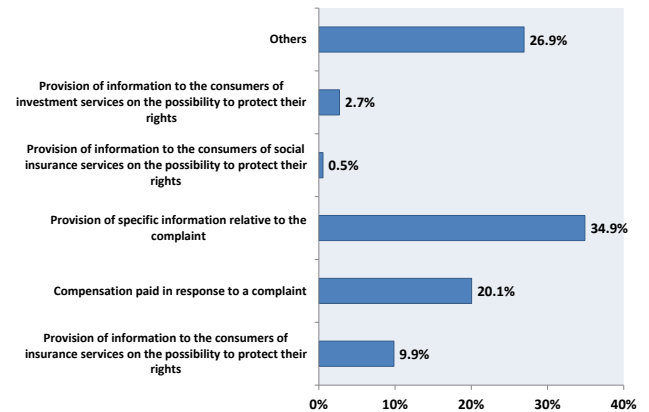
Very often, the consumer complaints filed with the FSC involved civil litigation between the complainant and the supervised entity which was beyond the competence of the FSC and which should be referred to a sectoral conciliation committee for extrajudicial dispute agreement or the competent court for consideration and resolution under the current legislation.

The Financial Supervision Commission in its replies to complaints against entities supervised by the FSC, the Financial Supervision Commission regularly informed the complainants that they had the possibility of extrajudicial settlement of disputes thus informing the consumers about the possibility for faster dispute settlement without any costs.

In 2019, there was a relative retention of the share of cases when compensation was paid after filing a complaint to FSC. The good rate of the share of actions leading to payment of the specific insurance compensation after the FSC had taken legal measures that was maintained in 2019 showed the efficiency of the institution in relation to its function to protect the consumers of investment, insurance and social insurance services. The effectiveness of the Commission's actions is also confirmed by the growing number of complaints lodged by lawyers.

In cases where violations of statutory provisions were found during a complaint examination, the FSC took action to hold the regulated entities responsible under the administrative regulations by drawing up acts for established administrative violations and issuing penalty warrants and also by implementing coercive administrative measures. The Financial Supervision Commission also approached the law enforcement authorities as necessary.

Graph 13. Structure of the actions undertaken in response to complaints, inquiries and signals received by the FSC in 2019

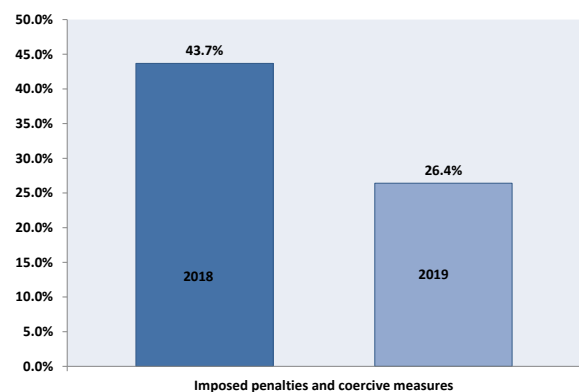


Source: FSC.

As a result of inspections performed in 2019, there was a decrease in the number of cases where penalties and coercive administrative measures were imposed to supervised entities, their percentage dropping to 26.4% of all complaints within competence, as compared to 43.7% in 2018. This reduction can be explained by increased market discipline.

The analysis of the prepared answers to the complaints and inquiries, as well as of the actions taken by the FSC in connection with the complaints, shows a positive effect of the actions of the regulator. In many cases, the applicants' claims, both natural and legal persons, were granted.

Graph 14. Penalties and coercive measures imposed under the received complaints

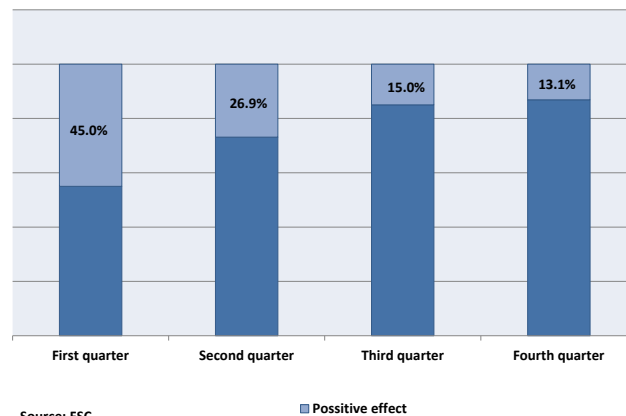


Source: FSC.

For 26.4% of the complaints and inquiries in 2019, a positive effect was shown due to the FSC’s actions when reviewing the received complaints, which was part of the activities to protect the interests of consumers of non-banking financial services.

In 2019, the highest proportion of the positive effect was recorded in the first quarter of the year – 45.0%, and the lowest in the fourth quarter of the year.

Graph 15. Effect of the FSC’s activity on protecting the interests of the consumers of non-bank financial services



5.3. Policy of financial literacy

During 2019, the Financial Supervision Commission took an active part in various forums: conferences, seminars, workshops and educational initiatives aimed at protecting consumers and raising the financial literacy of various social groups, partnering with both state institutions and non-governmental organizations that exercise their activity in the field of financial education.

The seventeenth edition of the educational program for students and teachers “Non-banking financial sector in Bulgaria” was held from 9 to 13 September 2019, organized by the FSC, Atanas Burov Foundation and the Ministry of Education and Science (MES). Twenty 11th grade students and five teachers participated, coming from secondary vocational schools with economic and financial profile from the cities of Blagoevgrad, Burgas, Varna, Veliko Tarnovo, Vidin, Gorna Oryahovitsa, Gotse Delchev, Kyustendil, Madan, Petrich, Plovdiv, Razgrad, Silistra, Sliven, Smolyan, Sofia, Stara Zagora and Haskovo. The financial literacy education program included lectures for each of the non-banking markets - capital, insurance and pension insurance, led by experts and experienced specialists from the FSC and business. The afternoon modules were held in the form of meetings with the real business environment through visits to pension insurance and insurance companies, financial groups, the Bulgarian Stock Exchange, the Central Depository and the Higher School of Insurance and Finance. For the first time, the program included international financial media, whose experts gave young people valuable advice on how to recognize fake news and where to get the right information.

From 24 to 28 June 2019 the summer business academy of VUZF was held for students from X, XI and XII grades from Sofia high schools, in which the FSC took part with lecturers.

On November 7, 2019, the Financial Supervision Commission traditionally joined the initiative “Manager for a Day” of Junior Achievement Bulgaria. For the first time there were five participants, each of whom took the position of the FSC members - Chairperson, Deputy Chairperson in charge of the Investment Supervision Division, Deputy Chairperson in charge of the Insurance Supervision Division, Deputy Chairperson in charge of the Social Insurance Supervision Division and a member of the Commission, supporting its policy on analysis and assessment of the risks on the financial markets,

improvement of the supervisory practice and protection of the interests of the investors, the insured and the insured persons.

The Commission has taken active action specifically aimed at analyzing and monitoring financial innovation in the non-banking financial sector and has supported the University of Economics - Varna in the implementation of the FinTech project. In this regard, a team of professors from the University of Economics - Varna shared their experience on June 6 and 7 and on June 20 and 21 with employees of the Financial Supervision Commission in the field of “Risks in Peer to Peer lending”, SUPTECH and Crowdfunding.

Contacts with the business also continued, with regular meetings with representatives of industry associations. Active communication was carried out with The Bulgarian Association of Supplementary Pension Insurance Companies (BASPSC) in connection with the amendments to the Social Insurance Code and the new regulations in the field of supplementary pension insurance, as well as with the Association of Bulgarian Insurers (ABI) and the Guarantee Fund (GF).

The FSC held a number of meetings with the Bulgarian Association of Licensed Investment Firms (BALIF). Together we organized the “How to Recognize the licensed investment firm” campaign with the Bulgarian Stock Exchange and the Central Depository regarding the changes in the regulations concerning the capital market.

All FSC initiatives in the field of consumer protection of financial services and the increase of the financial literacy of Bulgarian citizens were well aimed and we have achieved results in terms of increasing consumer confidence in the non-banking markets and strengthening the important role played by FSC for the stability and security of these markets.

6. Financial Technology Monitoring Strategy

In an environment of continuous dynamic development of the market of financial innovations worldwide, including at European level, and in implementation of the Financial Technology Monitoring Strategy (FinTech) adopted by the FSC in the non-banking financial sector (2018 - 2020), in 2019 the Financial Supervision Commission took a number of initiatives to monitor financial innovations, monitor the social insurance, investment and insurance markets on the financial innovations used, ensuring the protection of the rights of investors and consumers of innovative services and promoting its innovation activities.

At the beginning of the period under review, the FSC renewed the composition of the special working group engaged in the activities related to financial innovations, expanding the number of participating experts in order to ensure timely and relevant response to the received inquiries of FinTech companies and persons supervised by the FSC offering innovative products and / or services.

In order to improve their qualifications and expertise, several trainings on key topics in the field of financial innovation were organized during the year, including specialized training in the field of cybersecurity, conducted by a representative of the Specialized Cybercrime Department at the Directorate General for Combating Organized Crime, as well as a number of training sessions conducted by the academic staff of the University of Economics - Varna within a joint partnership project with the FSC.

FSC experts are also involved and work actively in the innovation working groups of the European Supervisory Authorities ESMA and EIOPA, and they also took part in seminars organized on the topic.

In order to raise the awareness of experts in connection with the development and trends in the ecosystem of financial innovation in 2019, as well as to get acquainted with innovative products offered on the financial markets, Commission experts attended all key forums organized in Bulgaria related to financial innovations, namely: FinTech Summit 2019, Fintech Forum, Tech of Tomorrow, Next Difi and Round Table “P2P lending in Europe and the Balkan peninsula”. At these forums the activity of the Commission in the field of innovation was presented, the created opportunity for cooperation between the regulator and supervised entities, respectively FinTech companies, was promoted through the Innovation hub created by the FSC.

In order to monitor market developments, analyze trends and identify risks, in 2019 the FSC conducted its annual study of the financial innovation market, and for this purpose a special questionnaire was developed aimed at the persons supervised by the Commission. The study involved 69 companies from the non-banking financial sector - 22 companies from the insurance market, 41 companies from the investment market and 6 from the pension insurance market. In the reporting year 2019, much higher activity in the survey was reported.

A group of experts made an in-depth analysis of the responses received, resulting in proposals to optimize the Commission's action in this area. Specific proposals were adopted at a meeting of the FSC.

In 2019, the Commission admitted and considered within the established mechanism for cooperation with business - Innovation Center (Innovation hub), specific inquiries from Bulgarian and foreign companies in connection with the regulatory framework and the applicable law to specific cases.

In order to facilitate the users during the same period, a project was launched to digitize the application form for the Innovation Center, as well as the survey, which receives feedback from the companies surveyed in order to optimize and improve communication and the content of the assistance received by the FSC.

The Financial Supervision Commission also held individual on-site meetings with representatives of companies wishing to launch an innovative product or service on the Bulgarian market in the field of insurance, investment and social insurance markets. Through the meetings, the companies cooperated in an optimal way, discussing all topics of concern to them in order to launch the projects.

In cooperation with experts from the Ministry of Finance, in 2019 FSC experts took part in the work on the dossier for the creation of a regulation governing the licensing and operation of European crowdfunding service providers.

7. International activity and cooperation

7.1. European dimension

The Financial Supervision Commission, as a participant in the European System of Financial Supervision (ESFS), is actively involved in the activities of the European regulatory authorities (ESMA and EIOPA) in order to associate the Bulgarian non-banking sector to the single European financial market. The FSC is part of the governing bodies and participates in the meetings of the boards of the European Securities and Markets Authority (ESMA) and the European Insurance and Occupational Pensions Authority (EIOPA), supporting the activities of the European Supervisory Authorities and through expert participation. in the working committees and groups set up for them. In addition, the FSC participates as a non-voting member

in meetings of the European Systemic Risk Board (ESRB) and cooperates with the European Banking Authority (EBA).

7.1.1. FOCUS TOPIC: The European Supervisory Authorities ESMA and EIOPA with new powers from 1 January 2020.

On 27.12.2019 in the Official Journal of the EU was published Regulation²¹ (EU) No 2019/2175 amends the structural regulations of the European Supervisory Authorities ESMA, EIOPA and EBA, strengthening their powers with a view to achieving greater harmonization and supervisory convergence in the EU financial sector.

The reform of the functions of the authorities is part of the measures to build a “Capital Markets Union in the EU.

The new powers of the European Supervisory Authorities (ESAs) shall enter into force and apply from 1 January 2020.

Some of the more important new powers include the following:

Structure, functions

- An obligation is created to take into account in their activities “sustainable business models and the integration of environmental, social and management factors”;
- A new administrative structure is being set up - a committee, which will be a unit with advisory functions. It will provide advice on whether the measures taken by the ESAs take into account the specific differences in the sector, the scale and complexity of the risks, the business models and practices, etc.;
- The European Parliament will be able to initiate a hearing of the President of the ESAs on the results of their work.

Tasks and powers - the following shall be added to the existing tasks of the ESAs:

- Promote and monitor the independence of national supervisory authorities;
- Prepare a **Union handbook on supervision** over financial market participants in the Union, which identifies best supervisory practices;
- Powers to protect consumers in a cross-border context of services are added;
- Create a **common Union financial strategy**;
- A new ground for issuing Recommendations shall be added when they are related to the strategic priorities of the Union under Art. 29a.

Regarding consumer protection, the following is added:

- data collection and cost-benefit analysis tasks for financial services and retail products in the

²¹ Regulation (EU) No 2019/2175 of the European Parliament and of the Council of 18 December 2019 amending Regulation (EU) No 1093/2010 establishing a European Supervisory Authority (European Banking Authority), Regulation (EU) No 1094/2010 establishing a European Supervisory Authority (European Insurance and Occupational Pensions Authority), Regulation (EU) No 1095/2010 establishing a European Supervisory Authority (European Securities and Markets Authority), Regulation (EU) No 600/2014 on markets in financial instruments, Regulation (EU) 2016/1011 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds, and Regulation (EU) 2015/847 on information accompanying transfers of funds

Member States;

- conducting in-depth thematic reviews of market behavior;
- development of risk indicators for non-professional clients;
- contribution to establishing a level playing field;
- coordinating the activities of the competent authorities on **secret shopping**;
- market bans for the territory of the EU - extended up to 6 months; under certain conditions, the

ESAs may extend the ban for up to 1 year.

Guidelines and recommendations

- The addressees of the guidelines and recommendations are expanded - they can be all competent authorities or all financial institutions in the respective country;
- Clear rules are introduced for the delegation to issue guidelines;
- An **online tool** is being created to receive and publish questions and answers.

Colleges of supervisors - new points are added to the existing framework:

- ESAs shall encourage the establishment of joint supervisory plans and the conduct of joint inspections, and ESA staff shall have the right to participate fully in the work of colleges of supervisors;
- The ESAs can now convene a meeting of the relevant college directly;
- The ESAs may recommend to the competent authorities to carry out on-site inspections and may participate in such inspections.

The following activities are added to the Authority's work on establishing a common supervisory culture:

- They will set out **the Union's strategic supervisory priorities**;
- Cybersecurity is added as a general priority;
- Environmental indicators are added (environmental, social and management risks);
- They will prepare **Supervisory manual** in order to create a common supervisory culture for the supervision of financial market participants in the Union.

Peer reviews (PR)

- The peer review committees will now **chaired by an ESA staff member**;
- ESAs will be able to refer an opinion to the EC for greater harmonization in the EU based on the findings of the PRs;
 - The follow-up actions are already regulated and obligatory - 2 years after the inspection the implementation of the given recommendations will be monitored to the respective NCAs;
 - Where the findings of the ESAs differ from those of the committee which carried out the inspections, the ESAs shall transmit the information to the European Parliament, the Council and the EC in confidence;
 - There is a possibility for conducting extraordinary peer reviews.

Exchange of fitness and propriety information

The three European Supervisory Authorities will set up an information exchange system relevant to the assessment of the qualifications and reliability of qualifying holders, directors and key functionaries.

Equivalence - new powers are added to the powers of the authorities in relation to international relations to support the issuance of equivalence decisions to third countries outside the EU.

President of ESMA / EIOPA

- They will be selected through a competition in which the principle of gender balance is observed and which will be published in the Official Journal of the European Union;
- The Chair will make public all meetings with external stakeholders within two weeks of a meeting.

Key aspects of ESMA's work

In 2019, the main mission of the European Securities and Markets Authority - ESMA, continues to be to strengthen investor protection and promote stable financial markets. In this regard, ESMA published its priorities for 2019 with key objective to highlight the body's activities that will ensure a high, coherent and effective level of supervision in the European Union. The priorities of the institution are as follows:

- supervisory convergence - implementation of MiFID II / MiFIR, legislation on Prospectuses and Securitization;
- risk assessment - data requirements for MiFID II / MiFIR;
- single rules - Union Capital Markets Action Plan and Financial Technology Action Plan;
- direct supervision - supervision of credit rating agencies and trade and registration registries under the Securitization Regulation and the Securities Financing Transactions Regulation (SFTR).

In line with ESMA's strategic orientation for the period 2016-2020, the institution focuses on the following two activities: supervisory convergence and risk assessment of financial markets. ESMA, together with the National Competent Authorities (NCAs), has come a long way in establishing the necessary supervisory convergence processes and working methods for identifying areas for improving convergence, as well as in developing tools for action. In 2019, ESMA continued to work in this direction, as well as to fulfill its responsibilities arising from the Union's capital markets initiatives.

Regarding ESMA's existing mandates, the main topics for 2019 are the work on supervisory convergence in the field of Prospectuses, as well as supervisory convergence actions in relation to the Securitization Regulation. An important focus topic continues to be the implementation of MiFID II and MiFIR, paying particular attention to meeting the growing demand for effective supervisory convergence, as well as analyzing and managing data requirements.

In addition, ESMA has expanded its direct supervisory responsibilities under the SFTR and the Securitization Regulation, as well as the new supervisory powers and responsibilities for the supervisory fund of the European Social Entrepreneurship Funds (EuSEF) and the European Venture Capital Funds (EuVECA).

In addition, ESMA is actively working on the topic of sustainable financing through a set of priority actions aimed at integrating environmental, social policy and governance (ESG) considerations as part of the investment chain.

As a European regulator, ESMA has continued its work persistently and prudently to support the smooth and sustainable withdrawal of the United Kingdom from the European Union. The supervisory authority shall endeavor to ensure adequate regulatory and supervisory coverage of third country companies.

ESMA Guidelines

During the reporting year ESMA continued to be strongly committed to its obligation to develop guidelines aimed at improving the protection of EU investors. The guidelines elaborate on basic standards of EU legislation in order to harmonize its application throughout the Member States.

In 2019 the FSC declared **to ESMA conformity with the following Guidelines:**

Guidelines on the reporting of internal settlement under Article 9 of the CSD Regulation (Central Securities Depository)

The scope of the guidelines covers the reporting of internal settlement and the exchange of information on internal settlement between ESMA and the competent authorities in accordance with Article 9 (1) of the CSD Regulation.

The guidelines are addressed to the competent authorities designated under Article 11 of the CSD Regulation and to settlement internalizes as defined in the second subparagraph of Article 2 (1) of the CSD Regulation.

The purpose of the guidelines is to ensure the general, uniform and consistent application of Article 9 of the CSD Regulation as well as the relevant provisions of Commission Delegated Regulation (EU) 2017/391 and Commission Implementing Regulation (EU) No 2017/393, including the exchange of information between ESMA and the competent authorities regarding internal settlement.

Guidelines on overcoming conflicts of interest by CCP (Central counterparty authorized under Article 14 of the European Market Infrastructure Regulation (EMIR)).

The guidelines apply to national competent authorities supervising CCPs in relation to the rules and procedures established by CCPs for the settlement of conflicts of interest under Article 33 of the EMIR.

The purpose of these guidelines is to ensure the general, uniform and consistent application of Article 33 of the EMIR and Articles 3, 5, 6 and 7 of the RTS of the CCP. In order to draw up these guidelines, ESMA has also reviewed the provisions issued in relation to other market infrastructures, in particular central securities depositories (CSDs), and the actual rules published by CCPs.

Guidelines on measures for additional collateralization and limitation of procyclicality, implemented by CCPs under the European Market Infrastructure Regulation

The scope of these guidelines covers the application of additional collateral requirements to limit procyclicality in accordance with Articles 41 of the European Market Infrastructure Regulation, Articles 10 and 28 of Commission Delegated Regulation (EU) No 153/2013 of 19 December 2012, supplementing Regulation (EU) No 648/2012 of the European Parliament and of the Council as regards regulatory technical standards on the requirements for central securities depositories.

The guidelines are addressed to the competent authorities designated in accordance with Article 22 of the European Market Infrastructure Regulation, which supervise central counterparties authorized in accordance with Article 14 of that Regulation.

Guidelines on the application of Section C, point 6 and Section C, point 7 of Annex I to the Markets in Financial Instruments Directive (MiFID)

The guidelines are issued at the initiative of ESMA on the basis of Article 16 of the ESMA Regulation.

The guidelines are addressed to the competent authorities and investment firms as defined in Article 4 (1) (1) of MiFID II.

In line with the application of MiFID II and Article 7 of Regulation (EU) No 2017/565, these guidelines amend the Guidelines on the application of Section C, point 6 and Section C, point 7 of Annex I to MiFID (ESMA / 2015/1341), which were issued in order to clarify points (6) and (7) of Section C, Annex I to MiFID, as supplemented by Article 38 of Regulation 1287/2006 / EC. The guidelines update the amended guidelines to adapt them to the new MiFID II regulatory framework, without changing their nature.

Their purpose is to ensure the common, uniform and consistent application of Article 4 (1) (17) in conjunction with Section C, points (6) and (7) of Annex I to MiFID, supplemented by Article 38 of Regulation 1287/2006. / EC.

Guidelines on non-significant benchmarks under the Benchmark Regulation

The guidelines are issued on the basis of Article 16 of the ESMA Regulation.

The scope of the guidelines covers the production of non-significant benchmarks and the provision of data on such benchmarks (Articles 5, 11, 13 and 16 of the Benchmark Regulation).

The guidelines shall be addressed to the competent authorities designated in accordance with Article 40 of the Benchmark Regulation, the administrators as defined in Article 3 (1) (6) of the Benchmark Regulation, and the supervised input data contributors as defined in Article 3 (2). 1, paragraph 10 of the Benchmark Regulation.

The purpose of the guidelines is to ensure the general, uniform and consistent application to non-significant benchmarks of the requirements of the monitoring function under Article 5 of the Benchmark Regulation, the input data provision in Article 11 of the Benchmark Regulation, the provision on the transparency of the methodology in Article 13 of the Benchmark Regulation and the provision on the management and control requirements for supervised input data contributors in Article 16 of the Benchmark Regulation.

Guidelines on risk factors under the Prospectus Regulation

These guidelines are addressed to the competent authorities designated by each Member State in accordance with Article 31 of Regulation (EU) 2017/1129 of the European Parliament and of the Council of 14 June 2017 on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market, and repealing Directive 2003/71/EC.

The purpose of the guidelines is to assist competent authorities in reviewing the specificity, relevance and presentation of risk factors in categories, depending on their nature. They are prepared in compliance with Article 16 paragraph 4 of Regulation (EU) 2017/1129 of the European Parliament and of the Council of 14 June 2017 on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market and repealing Directive 2003/71/EC. The guidelines also aim to promote appropriate and consistent disclosure of risk factors in an easy-to-analyze, concise and understandable form, by assisting the competent authorities in their review of the specificity and relevance and presentation of risk factors in categories.

Joint Guidelines on Article 17 and Article 18, paragraph 4 of Directive (EU) 2015/849 on simplified and expanded complex inspection of the customer and on the factors that credit and financial institutions should take into account when assessing the risk of money laundering and financing terrorism associated with individual business relationships and occasional transactions

These guidelines have been jointly adopted by the three European Supervisory Authorities (ESMA, EIOPA and EBA) and aim to identify the factors that companies should take into account when assessing the risk of money laundering and financing of terrorism (ML/ FT) related to with a business relationship or a casual transaction. They also set out the ways in which companies should adjust the extent of their customer due diligence (CDD) measures in a manner commensurate with the identified risk of the ML/ FT.

The subject of the Guideline was the risk assessments of individual business relationships and occasional transactions, but companies might use them *mutatis mutandis* to assess the risk associated with the ML/FT in their activities in accordance with Art. 8 of Directive (EU) 2015/849. The factors and measures described in the Guidelines were not exhaustive and companies should take other factors and measures into account as appropriate.

These Guidelines were addressed to credit and financial institutions as defined in Art. 3, para. 1 and Art. 3, para. 2 of Directive (EU) 2015/849 and the competent authorities responsible for overseeing compliance by these companies with their obligations in relation to measures against money laundering and terrorist financing (ML/FT). Competent authorities should use these guidelines when assessing the adequacy of company risk assessment and ML/FT prevention policies and procedures.

Peer reviews

In 2019, the European Securities and Markets Authority (ESMA) conducted two peer reviews (PRs):

Peer review of supervisory actions aimed at improving the quality of reported data under the EMIR Regulation

One of the objectives of Regulation (EU) No 648/2012 on OTC derivatives, central counterparties and trade repositories (EMIR) is to reduce and identify systemic and counterparty risk and to help prevent a future collapse of the financial system by providing of regulators accurate, up-to-date and relevant information on the risk of derivative positions, requiring all derivatives to be reported to trade repositories (TRs).

This goal is achieved when high quality data are reported by TR counterparties. To help improve the quality of EMIR data, in 2014 ESMA launched a Data Quality Action Plan (DQAP). It is a useful monitoring tool that allows NCAs to compare specific data quality indicators in all EU jurisdictions. In addition, it makes it possible to identify cross-border cases for which future measures need to be taken.

The peer review assessed NCAs in the following areas: the general supervisory approach of NCAs for the quality of EMIR data, the integration of EMIR into the overall approach of NCA to supervision, the access of NCAs, the evaluation and analysis of data.

In relation to ESMA, the peer review assesses the following areas: the supervisory approach of ESMA for the quality of EMIR data, the integration of EMIR into the overall approach of ESMA to supervision, the access of ESMA, the evaluation and analysis of data stored by TRs, in order to carry out supervision of TRs.

This verification is of the type of targeted PR and focused on six jurisdictions based on the information reported by the TRs of ESMA in June 2018: UK, CY, NL, DE, IE and FR. ESMA is also involved in the PR in its role as the direct supervisory body of the TR.

The report and the conclusions of this peer review are published on the ESMA website at the following address:

<https://www.esma.europa.eu/convergence/supervisory-convergence/peer-reviews>.

Peer review on the collection and use of Suspicious transaction and order reports (STORs²²) under the Market Abuse Regulation²³ as a source of information in market abuse investigations

The peer review aims to establish the practices of NCAs to effectively monitor STOR's reporting obligations to ensure that those who report are fully engaged and comply with legal requirements. This ensures that NCAs receive the relevant information in order to fulfill their mandate to maintain market integrity and strengthen investor protection and market confidence.

The scope of the peer review is in 6 areas related to STORs:

- the supervision of market operators and investment firms that operate trading venue systems and procedures to detect suspicious activity and report STORs (Article 16, para. 1 MAR);
- the supervision of persons who professionally organize / carry out transactions, with regard to their systems and procedures for detecting and reporting suspicious orders and transactions (Article 16, para. 2 MAR);
- the practices of NCAs regarding poor quality and non-reporting of STORs, as well as their enforcement activities and sanctions;
- STORs analysis practices;
- cross-border exchange of STORs by NCAs; and
- NCA resources to oversee STORs.

The report and the conclusions of this peer review are published on the ESMA website at the following address:

<https://www.esma.europa.eu/convergence/supervisory-convergence/peer-reviews>

Key aspects of EIOPA's work

The European Insurance and Occupational Pensions Authority, EIOPA, focuses on activities that contribute to achieving the vision of a reliable supervisor. The main goals of the institution are related to business management, supervisory convergence and financial stability. EIOPA applies a method to prioritize its activities to identify the most important areas of work for the year.

Among the main focus topics on which EIOPA is working in 2019 are insurance technology (InsurTech) and sustainable finance. InsurTech influences all stages of the chain of activities in the insurance and pension sector. Business models and consumer experience are changing as a result of the spread of financial innovation and technology. In this regard, the European regulator is setting up a special working group with a prepared mandate for the next few years to focus its efforts on the impact of financial technology in insurance and pensions. In 2019, EIOPA paid special attention to ensuring the safety and

²² Suspicious transaction and order reports, which are submitted to the NCA according to Art. 16 of the Market Abuse Regulation

²³ Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse (market abuse regulation) and repealing Directive 2003/6/EC of the European Parliament and of the Council and Commission Directives 2003/124/EC, 2003/125/EC and 2004/72/EC.

sustainability of the insurance sector. During the reporting year, the regulator was actively involved in the supervision of security and management of information and communication technologies (ICT), paying particular attention to the assessment of the adequacy of the application of the “cyber resilience test” in the insurance market.

In this regard, EIOPA has set the following priorities for 2019:

- impact on business models - supervisors need to be aware of changing business models to ensure appropriate risk-based supervision;
- big data - a priority due to the potential harm to consumers when pricing is done with the help of non risk-based data, thus raising potential ethical issues;
- cyber risks - an area with growing consequences both in terms of opportunities and risks for industry and consumers.

The European Supervisory Authority sets itself four strategic goals for 2019, outlining specific priorities for each of them, the work on which will help achieve the respective goal. The first goal that EIOPA sets is to work actively on regulation and business supervision. In this regard, the following priority areas have been identified:

- single European rules - convergence of supervision can only be achieved with a harmonized set of rules, thus ensuring a relatively standardized approach, application and practices across Europe;
- comprehensive approach to risk monitoring - intensified work on the methodology for risk monitoring in relation to business management in order to provide a comprehensive picture;
- coordination of supervisory practices - ensuring effective implementation of business supervision.

The second strategic goal is convergence, leading to high-quality prudential supervision across the EU. There are three main characteristics of the regulatory framework for achieving quality supervision - reliable, intelligent and stable, improving the use and quality of supervisory information. In 2019, EIOPA continued its work on the review of the guidelines prepared by it, as well as on the report on long-term guarantee measures (LTG).

With regard to the pension sector, in 2019 the goal was more effective cooperation between the national and host supervisory authorities of cross-border institutions for occupational retirement provision (IORP). In addition, and as a result of the successful implementation of international and European initiatives to increase the transparency of pension funds, EIOPA has the opportunity to carry out more in-depth and more complex analyzes of statistics to assess the European occupational pension sector.

EIOPA works hard to improve the use and quality of supervisory information through effective standardized exchange mechanisms, centralized quality checks and the timely provision of business information. In this regard, the following priorities have been set for 2019:

- improving the quality of prudential data and data on the financial stability of insurance and pensions - maintaining and further developing data quality checks;
- promoting consistency in supervision by providing a wider range of indicators to help identify risks, as well as focusing on supervisory decision-making;
- strengthening security - investing in strengthening the security of the organization in all its aspects - both personal and information technology security.

EIOPA is actively involved in the work of supervisory convergence in the field of prudential supervision of insurance companies, and among the priorities set for 2019 were:

- building and improving a common supervisory culture and consistent supervisory practices;

- EIOPA to issue opinions on the approval of internal models;
- carrying out a risk-based assessment and monitoring specific supervisory issues regarding the quality and coherence of national supervisory practices with a focus on cross-border issues.

The third strategic goal in 2019 was to strengthen the financial stability of the insurance and occupational pension sector. Challenging market conditions call for greater risk monitoring at EU level, aiming at early identification of potential problems and proposing actions to support the stability of sectors.

Among the priorities for 2019 on this topic were the following:

- maintenance and development of various products (e.g. stress tests, financial stability reports, risk identification table);
- transparent and reliable risk reports and statistics - developing and providing reliable risk analysis and statistics are an important area of focus, as they increase transparency and confidence in the insurance sector;
- preventive policies and actions to mitigate risks to financial stability - as a precautionary measure for financial stability, the emphasis is on crisis prevention.

The fourth strategic objective is to implement the EIOPA mandate effectively and efficiently. In 2019, EIOPA continued to seek cooperation with the other two European Supervisory Authorities - ESMA and EBA. The institution has set the following priorities for the year:

- to maintain willingness for effective and efficient implementation of all necessary changes - EIOPA to adapt existing processes, introduce new ones to meet all new requirements arising from the ESA, PEPP or Brexit review, while continuing to provide added value in the areas of business management supervision, quality and consistent prudential supervision and financial stability;
- Improving, optimizing and automating processes - To ensure that EIOPA works as efficiently and effectively as possible, the Authority strives to continuously improve the functioning of its processes.

Peer reviews

In 2019, the European Insurance and Occupational Pensions Authority (EIOPA) also conducted two peer reviews:

Peer review of supervisory practices in connection with the application of the prudent person rule by institutions for occupational retirement provision

The purpose of peer review is to examine supervisory practices related to the application of the principle of **prudent** investor from **institutions for occupational retirement provision** to promote the development of a common supervisory culture by identifying best practices and issuing recommendations to national competent authorities.

The peer review was conducted among 27 national competent authorities from 24 countries of the European Economic Area, incl. and the Republic of Bulgaria, based on EIOPA's peer review methodology.

The report and the conclusions of this peer review are published on the EIOPA website at the following address:

<https://www.eiopa.europa.eu/content/results-peer-review-supervisory-practices-respect-application-prudent-person-rule-iorps>

Peer review on the qualification and reliability requirements of the members of the administrative, management or supervisory body and of the qualified shareholders

The regulations of the Solvency II regime require insurance and reinsurance undertakings to be owned and operated by persons with professional qualities and good repute in order to ensure the stability and sound management of companies. The main responsibility for ensuring the qualification and reliability of the members of the administrative, management or supervisory body of companies (AMSB) lies with the (re) insurers, as well as with the national competent authorities, which carry out their assessment after the assessment of the (re) insurers. Similarly, any acquisition or change in qualifying holding is subject to review and approval by the NCA. During the reference period from 1 January 2016 to 15 May 2017, NCAs have allocated significant resources to the evaluation of 8,031 applications for qualification and reliability and 131 changes to qualifying holdings.

A number of cross-border cases in the European Economic Area show a lack of harmonization in relation to the assessment of the qualifications and reliability of AMSB members and qualified shareholders. This lack of harmonization leads to potentially different results in different countries for the same people. The peer review was initiated on the basis of these cases in order to examine the reasons for the lack of harmonization and to recommend actions to improve the convergence of supervision in this area.

The report and the conclusions of this peer review are published on the EIOPA website at the following address:

<https://www.eiopa.europa.eu/content/results-peer-review-propriety-administrative-management-or-supervisory-body-members-and>

In addition, in 2019 the FSC took part in a peer review launched by EIOPA on the regular supervisory report. A questionnaire was completed, on the basis of which additional clarifications were subsequently provided by the EIOPA Control Group team.

EBA Guidelines

During the reporting year, the FSC adopted in its work with a decision the intention to observe in its supervisory practice the following guidelines, adopted by the European Banking Authority as a leading institution in the field of securitizations:

Guidelines on the simplification, transparency and standardization criteria for securitizations with asset-backed commercial paper, adopted by EBA, with a decision of the FSC of May 7, 2019.

The purpose of the guidelines is to define the criteria for simplification, standardization and transparency for securitizations with asset-backed commercial paper in accordance with Articles 24 and 26 of Regulation (EU) No 2017/2402 of the European Parliament and of the Council of 12 December 2017, as they apply to the requirements at the transaction level and at the program level regarding the securitizations with asset-backed commercial paper.

The guidelines shall be addressed to the competent authorities referred to in Article 29 (1) and (5) of Regulation (EU) No 2017/2402, as well as to other addressees falling within the scope of that Regulation.

Guidelines on the simplification, transparency and standardization criteria for securitizations with non asset-backed commercial paper, adopted by EBA, with a decision of the FSC of May 7, 2019.

The purpose of the guidelines is to define the criteria for simplification, standardization and transparency for securitizations with non asset-backed commercial paper in accordance with Articles 20, 21 and 22 of Regulation (EU) No 2017/2402 of the European Parliament and of the Council of 12 December 2017, as they apply to the criteria for simplification, standardization and transparency of securitizations with non asset-backed commercial paper.

The guidelines should be addressed to the competent authorities referred to in Article 29 (1) and (5) of Regulation (EU) No 2017/2402 and to other addressees falling within the scope of that Regulation.

Key aspects of ESRB's work

A key role in the work of ESRB bodies and structures in 2019 continues to be assessing the risks to EU financial stability associated with slowing growth, which is a challenge to public and private debt sustainability, and the demand for profitability on the financial markets, which is intensifying in the conditions of low interest rates. Among the risks are the continuing weakness of world trade and the negative impact of global political uncertainties.

In 2019, the ESRB assessed the compliance of the measures and actions under Recommendation ESRB/2012/1 on money market funds and amended Recommendation ESRB/2016/14 on closing real estate data gaps (Recommendation ESRB/2019/3).

Pursuant to the ESRB Recommendation of 18 June 2014 on guidance for setting countercyclical buffer rates (ESRB / 2014/1), pursuant to Art. 13, para. 1, item 25 of FSCA, in connection with Art. 111 of Ordinance No 50 of 19.06.2015 on capital adequacy, liquidity of investment firms and supervision of their observance, the Financial Supervision Commission at its meetings made decisions to recognize the level of countercyclical buffer set by the BNB in amount of 0% for the first three quarters of 2019 and in the amount of 0.5% for the fourth quarter of 2019, which applies to credit risk exposures in the Republic of Bulgaria. Investment firms may be exempted by the FSC from maintaining a safe capital buffer and / or a specific countercyclical capital buffer in application of the provisions of Art. 80, respectively Art. 83 of Ordinance No 50. Subsequent decisions to increase the level of the countercyclical buffer were revoked at a meeting of the FSC on 24.03.2020, as the applicable level of countercyclical buffer of 0.5%, determined in October 2018, remains in force until the next decision.

In accordance with Recommendation ESRB/2015/1 on recognizing and setting countercyclical buffer rates for exposures to third countries, in 2019 the ESRB published without significant changes compared to 2016 the list of countries identified as significant third countries, including Brazil, China, Hong Kong, Russia, Singapore, Switzerland, Turkey and the United States.

With regard to Recommendation ESRB / 2016/14 on closing real estate data gaps (as amended by Recommendation ESRB / 2019/3), the FSC together with the BNB has prepared an interim report on the measures and actions taken under the Recommendation. The real estate sector continues to be assessed as one of the sources of systemic risk in the medium term in some EU countries.

Following the second review of vulnerabilities in the residential real estate sector, launched in 2018, the ESRB issued warnings to five countries regarding medium-term vulnerabilities in the residential real estate sector (Norway, Iceland, France, Germany and the Czech Republic). In addition, following the 2016 warnings to Sweden, Finland, the Netherlands, Belgium, Denmark and Luxembourg, the ESRB issued recommendations to address medium-term vulnerabilities in the residential real estate sector in these countries.

The ESRB's work on macroprudential policy beyond banking and on the analysis and development of macro-prudential instruments in insurance continues, and the outcome of this work will be taken into account in the review of the Solvency II Directive. An analysis of the incentives for central clearing and procyclicality in relation to the new requirements arising from the EMIR review was also performed.

In 2019, the ESRB will contribute to the preparation of the adverse scenarios of the EIOPA stress tests for pension funds and ESMA for central counterparties.

The ESRB has also started work on sustainable finance by developing and implementing a methodology for conducting a study of the impact of different climate change scenarios that could affect the EU financial sector.

7.2. International cooperation, projects and initiatives

The FSC's cooperation with international organizations and financial institutions is a significant aspect of the regulator's activity which becomes even more important in the context of globalized financial markets. The Commission is member in the three international organizations which issue standards in the sector of securities, insurance and pension insurance, namely the **International Organization of Securities Commissions – IOSCO**, the **International Association of Insurance Supervisors – IAIS** and the **International Organization of Pension Supervisors – IOPS**.

With regard to FSC's activity in exchanging information with foreign regulatory and supervisory authorities related to the investigations of natural persons and companies, license and other procedures, during 2019 the FSC continued to provide active support. 50 requests for cooperation received from foreign supervisory authorities were satisfied pursuant to IOSCO, IAIS and ESMA's memoranda of understanding. In turn, FSC has filed 29 requests for cooperation with its foreign partners.

With the entry into force of the General Data Protection Regulation (GDPR), stricter requirements have been introduced for the collection and processing of personal data, including with regard to their transfer to third countries. In order to ensure the continued lawful exchange of information with third countries by aligning the IOSCO Memorandum with the GDPR, a draft administrative arrangement was prepared and approved by both the European Data Protection Authority and the Bulgarian Commission for the Protection of Personal Data. As a result, on 11 April 2019, the FSC signed a multilateral administrative agreement for data transfer pursuant to Art. 46, para. 3 of the GDPR.

In addition, two international memoranda were signed with the European Central Bank (17 January 2019) and the China Banking and Insurance Regulatory Commission (23 October 2019).

Multilateral Agreement for Exchange of Information with the European Central Bank

The Multilateral Agreement for Exchange of Information was concluded with the European Central Bank (ECB) and the competent supervisory authorities of the Member States of the European Union (EU) during the reporting year. The agreement was concluded in implementation of Art. 57a, para. 2 of Directive (EU) 2015/849 in connection with Directive (EU) 2018/843 of the European Parliament and of the Council of 30 May 2018 amending Directive (EU) 2015/849 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing, and amending Directives 2009/138/EC and 2013/36/EU. The purpose of the agreement is to regulate the practical arrangements for the exchange of information between the ECB, in its capacity as a body implementing Article 27 (2) of Regulation (EU) No 1024/2013 and Art. 56, first subparagraph, item (g) of Directive 2013/36 / EU, and the competent authorities supervising credit and financial institutions in accordance with Directive 2015/849.

Memorandum of Cooperation in the field of insurance with the China Banking and Insurance Regulatory Commission

On the occasion of the 70th anniversary of the establishment of diplomatic relations between Bulgaria and China, in October 2019 the Financial Supervision Commission and the China Banking and Insurance Regulatory Commission (CBIRC) signed a Memorandum of Cooperation in the field of insurance. At a

bilateral meeting organized by the FSC in Sofia, the two institutions signed the agreement, which established a procedure for the exchange of supervisory information and strengthening cooperation in the field of insurance supervision. The partnership between the two supervisors is also part of China's 16 + 1 initiative, aimed at strengthening and expanding co-operation with the 16 Central and Eastern European countries (CEE) - Bulgaria, Albania, Bosnia and Herzegovina, Estonia, Latvia and Lithuania. , Poland, Republic of Macedonia, Romania, Slovakia, Slovenia, Serbia, Hungary, Croatia, Montenegro, Czech Republic.

Accession of the Republic of Bulgaria to the Organization for Economic Cooperation and Development (OECD)

In 2019, the FSC took an active part in the process of accession of the Republic of Bulgaria to the Organization for Economic Cooperation and Development (OECD). At present, accession is defined as an important goal of the foreign policy of the Republic of Bulgaria.

In this regard, a working group was established within the FSC in order to perform the tasks falling within the competence of the Bulgarian Supervisory Authority regarding Bulgaria's accession to the OECD. In 2019, the working group systematically dealt with filling in questionnaires, submitting information and comments regarding the various stages of accession.

In addition, representatives of the FSC are members of several interdepartmental working groups that are involved in a specific stage of the accession process. Such a key stage on the path to the country's accession to the international organization is the accession to the Code of Liberalization of Capital Movements and the Code of Liberalization of Current Invisible Operations of the OECD (the Codes). On this topic, the members of the working group within the FSC systematically worked on the preparation of answers to questions asked by the OECD, prepared the contribution of the FSC in the national position and others. Representatives of the Bulgarian Supervisory Authority also participated in a number of meetings at both national and international levels to discuss accession to the two OECD founding codes.

The Financial Supervision Commission also nominated representatives to the interdepartmental working group established in connection with the Review of the Investment Policy of the Republic of Bulgaria, which is also among the main stages of accession to the OECD.

EIOPA Pilot Project

In 2019, the FSC applied for participation in the Structural Reform Support Programme of the European Commission (SRSP) - Pilot project for trainings of the European Insurance and Occupational Pensions Authority (EIOPA). The pilot project provides for targeted training for the staff of the national competent authorities on the application of the Solvency II regime, which introduces new requirements for the supervision of insurance companies. The project aims to increase the administrative capacity of employees in terms of supervision of prudential and quality requirements, as well as group supervision. Despite the great interest at European level in the newly launched initiative, the FSC was among the first institutions approved by the European Commission to participate in the training program to be held in 2020 in Sofia. The participation of the FSC in this project is also in view of the commitments under the National Reform Program for 2019, as well as the action plan for Bulgaria's accession to ERM II.

Cooperation with the National Securities and Stock Market Commission of Ukraine

In July 2019, the FSC organized a study visit in Sofia to employees of the National Securities and Stock Market Commission of Ukraine. The competent authority of Ukraine is preparing an act on collective

investment undertakings, containing provisions of European Directive 2009/65/EC on undertakings for collective investment in transferable securities and Directive 2011/61/EU on alternative investment fund managers. The visit, supported by the European Union to strengthen the legal framework for capital market regulation in Ukraine, aimed to acquaint members of the working group directly involved in drafting the law in Ukraine, with the experience of the FSC and Bulgaria on the subject. FSC experts gave presentations on the peculiarities of the Bulgarian and European legislation and markets, followed by a discussion on the experience of the FSC in such reforms of the non-banking financial sector.

Project in the field of financial education

Another project in which the FSC participated last year is in the field of financial education and is implemented by the International Network on Financial Education at the OECD and the Ministry of Finance of the Netherlands. It is a 5-year project (2018-2022) which aims to provide support for the development and implementation of initiatives adapted to the specific needs of the participating countries in the field of financial education. A total of 7 countries are participating in the project; in addition to Bulgaria, these are Romania, Croatia, Macedonia, Montenegro, Moldova and Georgia. The project is a high priority, including in connection with the candidacy of the Republic of Bulgaria for membership in the OECD. Within the project, in November, FSC employees took part in a conference and technical seminar on "Increasing financial literacy in Southeast Europe" in the city of Tbilisi, Georgia. The event aimed to promote the exchange of experience and knowledge between participants through presentations and interactive discussions on the implementation of national financial literacy strategies, achievements, challenges and good practices for improving financial literacy in the region. The results of a financial literacy survey were also discussed, as well as the identified needs for financial literacy in the entire region of Southeast Europe.

7.3. Cooperation with institutions in Bulgaria

The FSC maintains and deepens its cooperation with state structures, branch associations of the FSC supervised persons and other interested persons in view of the prepared changes in the legislation and the practical problems that have arisen in its implementation.

The Commission was actively cooperating with branch associations – the Bulgarian Association of Asset Management Companies (BAAMC), Bulgarian Association of Licensed Investment Firms (BALIF), Bulgarian Association of Supplementary Pension Security Companies (BASPSC), the Association of Bulgarian Insurers (ABI), as well as numerous institutions – National Revenue Agency (NRA), State Agency for National Security (SANS), Bulgarian National Bank (BNB), Ministry of Finance (MF), the Registry Agency (RA), the Institute of Certified Public Accountants (ICPA) and the Commission of Public Oversight of Statutory Auditors (CPOSA).

In 2019, the following interdepartmental agreements were concluded:

- Agreement for cooperation and exchange of information between the Financial Supervision Commission and the National Revenue Agency with No CIIOP-6 / 10.06.2019;
- Agreement for cooperation and exchange of information in connection with the requirement for the Cybersecurity Act between the Financial Supervision Commission and the State e-Government Agency with No CIIOP-10 / 25.11.2019

In the course of the work in 2019 on the drafting of an ordinance for the bonus-malus system, representatives of the Insurance Supervision Division participated in a series of meetings of an interdepartmental working group with representatives of the Ministry of Interior and MTITC. In addition to

the channels for collecting public opinion, on December 3, 2019, an expert discussion took place at the Higher School of Insurance and Finance (VUZF), which was attended by the Association of Bulgarian Insurers (ABI), the Bulgarian Association of Accident Victims, State Agency for Road Safety, Institute for Road Safety, Guarantee Fund, representatives of the Ministry of Interior and MTITC. During the discussion, in an extremely beneficial manner, the experts reaffirmed their support for the model, presenting constructive and seriously reasoned proposals for improvements in the bonus-malus system. All parties agreed on the main goal that new instruments should be introduced to reduce the number of traffic-related deaths in Bulgaria.

In connection to the preparation of draft ordinance for determination of a Methodology for determining the amount of compensation for pecuniary and non-pecuniary damages due to bodily injury to an injured person and for determining the amount of compensation for pecuniary and non-pecuniary damages to an injured party due to the death of an injured person, in 2019 an inter-departmental working group was set up with representatives of the FSC, the Ministry of Health (MH) and the MLSP. In the course of the work, written statements and proposals were presented and considered by the participants in the working group, as well as other interested parties - Sofia District Court, Supreme Bar Council and individual lawyers, statistical information was collected and processed by insurers carrying mandatory Motor Third Party Liability Insurance, regarding the paid compensations for pecuniary and non-pecuniary damages in case of death and bodily injuries under the same insurance.

Also, a representative of the Insurance Supervision Division took part in a working meeting held at the Ministry of Tourism to discuss the problem of the continuing lack of supply on the Bulgarian insurance market Liability of the trader facilitating the provision of related tourist services and discussion of the mandatory insurance Tour operator liability.

In the line of interdepartmental cooperation in connection with the discussion and coordination of proposals for changes in the regulations and exchange of available information, in 2019 representatives of the Insurance Supervision Division took part in:

- meetings of a working group with the leading institution being the MLSP with the purpose to develop a draft Law on the amendment and supplement of the Social Insurance Code in order to regulate the payment phase of supplementary mandatory pension insurance;
- working meetings with representatives of the MF and the BASPSC on a draft Law on the amendment and supplement to the SIC introducing the requirements of Directive (EU) 2016/2341 on the activities and supervision of institutions for occupational retirement provision, etc.

In 2019, the participation of representatives of Social Insurance Supervision Division in the permanent working groups of the Council on European Affairs continued, in particular in Working Group 26 “Financial Services” with the leading institution being the MF, Working Group 2 “Free Movement of People” and Working Group 13 “Social Policy and Employment” at the MLSP, as well as the participation in a working group with the leading institution being the MF in relation to the implementation and reporting of the measures under the Action Plan for the implementation of the Republic of Bulgaria’s intentions to join the Exchange Rate Mechanism II and the Banking Union (ERM II).

A representative of the Social Insurance Supervision Department took part in the procedure for the official distribution of the persons who had not selected a fund for supplementary compulsory pension insurance that was carried out in accordance with Instruction No. 1/21.02.2006. The official distribution was carried out four times a year by a Commission created with the National Revenue Agency which included

one authorized representative of each NRA, FSC and the Bulgarian Association of Supplementary Pension Security Companies.

8. Institutional development of FSC

8.1. New points in FSC's management and structure

By a decision of 15 March 2019 of the National Assembly, Mr. Boyko Atanasov was elected Chairperson of the FSC. With the election by the National Assembly of Ms. Mariya Filipova as Deputy Chairperson of the FSC in charge of the Investment Supervision Division, and of Ms. Iliana Hristova as Deputy Chairperson of the FSC in charge of the Insurance Supervision Division in April 2019, the management staff of the institution has been filled, which ensures its proper and effective management and functioning.

8.2. Human resources management

Financial Supervision Commission's structure and functions are defined by the FSCA, the Rules of Structure and Activity of the Financial Supervision Commission and its Administration (RSAFSCA), the special acts and regulations that govern the investment, insurance and social insurance activity. The approved number of employees working at FSC as at the end of 2019 was 255 (five members and 250 persons working in administration). According to the distribution of functions, the Commission's administration consisted of general and specialized administration and units and positions directly subordinate to the chairperson: Chairperson's Office, Internal Audit Unit, Inspectorate, Chief Secretary, Financial Controller, Information Security Officer, Data Protection Officer, and Network and Information Security Officer.

The general administration assists the Chairperson of the Commission in exercising their powers as head of the administration, ensures the technical provisioning for the activities of the Commission and of the specialized administration, and performs activities related to administrative services for citizens and legal entities. At the end of 2019, the following directorates comprised the general administration:

- Legal Directorate – 19 permanent posts;
- International Cooperation Directorate – nine permanent posts;
- Coordination and Policy of Regulatory and Supervisory Activity – one permanent post;
- Records and Administrative Services Directorate – seven permanent posts;
- Financial and Economic Activities Directorate – 22 permanent posts;
- Information Technologies Directorate – seven permanent posts;
- Public Relations and Protocol Directorate – seven permanent posts;

According to the RSAFSCIA, the Legal, International Cooperation and Coordination and Regulatory and Regulatory Affairs Directorates were part of the general administration but in the exercise of their functions they were directly subordinate to the Chairperson of the Commission.

The specialized administration supports and ensures the exercise of the powers of the Commission and its bodies, and is comprised of the following directorates:

- Regulatory Regimes of Investment Activity Directorate – 25 permanent posts;
- Supervision of Investment Activity Directorate – 56 permanent posts;
- Regulatory Regimes of Insurance Supervision Directorate – 14 permanent posts;
- Insurance Supervision Directorate – 33 permanent posts;

- Regulatory Regimes of Social Insurance Supervision Directorate – eleven permanent posts;
- Social Insurance Supervision Directorate – 15 permanent posts;
- Analyses, Complaints and Resolution Directorate – eleven permanent posts.

To achieve the strategic objectives, the Commission had as its priority the improvement of conditions and provision of favorable working and social environment to attract suitable recruits, as well as to keep qualified employees and further their professional development. With a decision under Protocol No 8 of 29 January 2019 of the Financial Supervision Commission, the FSC Human Resources Management Policy for the period 2019 - 2021 was adopted. The strategic document is aimed at developing the policy and systems for assessment of employee performance and adequate remuneration according to fulfillment of professional assignments, achieved results and regulatory requirements.

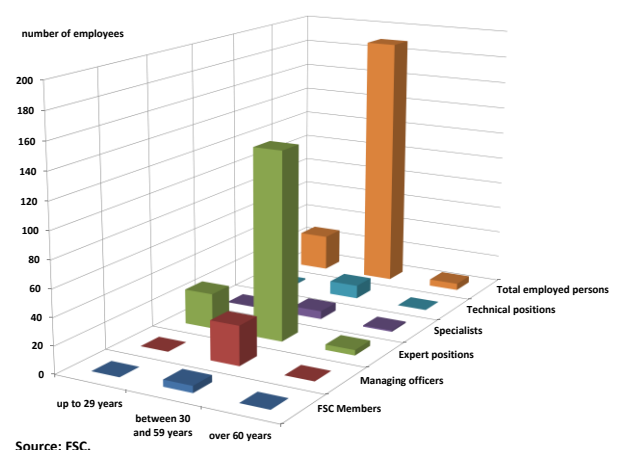
As a result of the actions undertaken to attract experts with the required professional qualifications, the number of permanent posts occupied in the Commission is 221 at the end of 2019, reaching an employment rate of 86.7 % of the total number.

The current Procedure for selection of candidates for work in the FSC guarantees transparency of the selection process and is based on the principle of competition based on the professional and business qualities of the candidates. The procedure regulates the appointment of experts with the necessary qualification and experience in the non-banking financial sector, in strict compliance with the regulations in the field of labor relations. The circle of publicity in recruiting candidates who have a specialized interest in the economy and have the knowledge and competencies required by the FSC has been expanded.

In 2019, 41 new employees were recruited, under the Candidate Selection Procedure, including 2 employees on the positions of financial analyst and actuary, with a high level of expertise. 36 people resigned in 2019. This includes 1 employee whose employment ended due to the acquired right to a pension for length of service and age.

The trend to attract young people to work in the FSC continued during the reporting year, as employees under the age of 29 accounted for 12% of the employed employees of the FSC administration. The majority of employees fall into the age group of 30 to 59 years (86%). There are 5 (2%) employees working in the FSC over the age of 59.

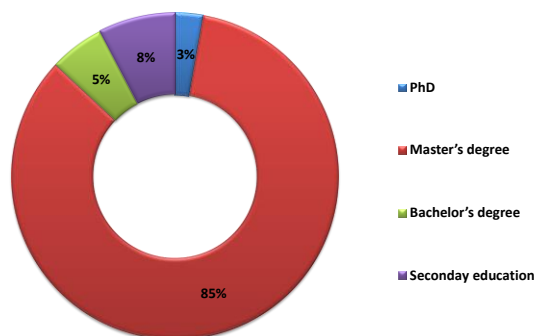
Graph 16. Distribution of appointed employees by age and position as at the end of 2019



The educational and professional-qualification structure of the persons employed in the FSC meets the real needs necessary for the fulfillment of the goals and tasks set before the Commission. Employees with higher education dominate, representing 92% of those employed in 2019, including a doctorate (3%), a master's degree (85%) and a bachelor's degree (5%). The share of employees with secondary education is the smallest (8%). The distribution of FSC employees by areas of higher education is as follows: the highest

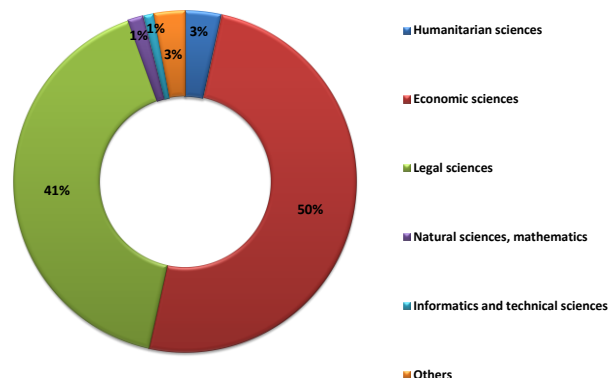
percentage (50%) are employees with higher education in the field of economic sciences, 41% - in the field of legal sciences, 3% - humanities, 1% - technical sciences and informatics, 1% - natural sciences and mathematics, and 3% have education in other fields.

Graph 17. Distribution of employees by educational degree in 2019



Source: FSC.

Graph 18. Distribution of employees by areas of higher education in 2019



Source: FSC.

The FSC's effective regulatory and supervisory activity, maintaining the high level of professional knowledge and skills and improving the employees' personal motivation are ensured through their participation in current and specialized trainings.

To increase the administrative capacity of the FSC, 25 specialized trainings were conducted, in which 32 employees took part. The seminars are organized by European and international institutions - the European Securities and Markets Authority (ESMA), the European Insurance and Occupational Pensions Authority (EIOPA), the Joint Vienna Institute and the International Monetary Fund (JVI & IMF), the International Organization of Securities Commissions (IOSCO).

In connection with an agreement concluded with the CFA Institute, 3 employees were approved and included in the CFA – Level I training program.

In order to absorb the specifics and innovations in the field of financial reporting and analysis, the changes in the regulations, the development of personal qualities and maintaining a high level of professional competence of employees, in 2019 107 trainings were held, in which 341 employees took part. The trainings were mainly in the field of financial management and control, risk management in the public sector, impact assessment, personal data protection, personal development and effectiveness, foreign language training, actively using the opportunities for e-learning without separation from the work process..

The motivation for better performance of the position and the achieved results from the activity of the employees gives opportunity for career growth. Promotion to a senior position in the Commission was carried out after an objective and fair assessment of the potential for development of the candidates, in compliance with the principle of equality, and in 2019 18 employees were promoted.

In 2019, the Financial Supervision Commission continued its participation in the Program for Student Internships in the State Administration and provided the opportunity for full practical internships for Bulgarian students educating themselves in the country and abroad.

8.3. Development of information technologies for the needs of supervision

The development of the IT infrastructure in the Financial Supervision Commission in 2019 was marked by sustainability and preservation of investments. Following current trends in information technology, the Commission continued to maintain its programming systems. In 2019, the established information and communication systems provided an opportunity to fulfill the obligations of all officials, ensuring traceability of actions and processes, as well as the implementation of effective control over the submitted information.

The timely introduction of specific orders and instructions on the duties of the personnel, the performance of the assigned tasks, as well as all supervisory and regulatory actions resulting from the activities of the FSC as a supervisory body of the non-banking financial sector, were implemented through an automated information management system for document and work process management AIS-Document Flow. The system maintained a functionality for automatic inter-departmental exchange of electronic documents - IC.

The maintenance of the current state of information in FSC's registers continued. The information in e-Register was updated by supervised persons, and all the other circumstances were being duly updated in the e-Register and the ERiK index on the basis of the information submitted in the orders by specialized divisions of the FSC.

The electronic portals available through the FSC website continued to allow the regulated entities to receive, control, process and disclose regulated information in a fully automated way.

In 2019, the active participation of the FSC in the working groups of ESMA and EIOPA on the implementation of IT solutions and their application for supervisory purposes at the local level continued. The Commission has successfully participated in the development and implementation of a technology container for connection to the DG DIGIT (EC) blockchain network, based on an existing container used in the EFTG project of the European Commission's Directorate-General for Information Technology.

The successful acceptance, validation and processing of the daily incoming information on the implemented investment transactions of all investment firms operating on the territory of the Republic of Bulgaria through the automated information system to ensure the implementation of Art. 26 of Regulation (EU) No 600/2014 of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments continued.

In 2019, a mechanism for validation and transfer to EIOPA of the accounts of the Pension Insurance Companies pursuant to Solvency II was successfully implemented.

In 2019, a project was launched and continues to be implemented for building online forms and information sections to them, an internal information system for compliance with the requirements of the Implementation of the Measures against Market Abuse with Financial Instruments Act (IMMAFIA), as well as an internal information system for visualization and correction of the content of the electronic administrative services (EAS) offered by the FSC.

During the reporting period, a full analysis of the security of the FSC's information systems, security breach tests, as well as automatic scanning of the vulnerabilities of the FSC's systems were performed.

The Financial Supervision Commission successfully participated, together with the Bulgarian Stock Exchange AD and the Central Depository AD, in a project for a single-entry point between the three institutions, which will provide a single entrance for data submission by the capital market.

With Decision No 1024-OP of 16.09.2019 of the Chairperson of the FSC, the public procurement procedure with subject “Design, development, implementation and maintenance of a unified information system for processing of incoming, outgoing and internal information in the Financial Supervision Commission” was terminated due to the availability of only one suitable offer.

In order to update and verify the requirements of the FSC for the future unified information system and adapt these requirements to the changes in the regulations, processes and procedures of the FSC, an agreement was concluded for consulting services for preliminary preparation for implementation of a specialized Unified Information System (UIS).), by preparing technical documentation, which supplements and verifies the functional and non-functional requirements for development and implementation of a unified information system of the FSC. The subject of this agreement includes the preparation of: analysis of business processes, terms of reference and specification, technical specification for the necessary hardware equipment and software licenses, roadmap, preparation of a conceptual IT architecture and preparation of an estimated value of the public procurement for the award and implementation of UIS. The implementation period is in 2020, and all activities planned for 2019 are completed on time and with the required quality.

During the reporting period, virtualization in the internal and external IT infrastructure of the FSC continued. The maintenance of the already built systems for external printing and IP telephony continued. A complete solution for managing system and information archives was implemented, as well as a tape library.

Also, a large part of the employees' personal workstations were renovated, part of the active network equipment was replaced and the local computer network was optimized. A new system for access control and management of employees' working hours was introduced. An almost complete migration of the virtual server infrastructure to the VMWare virtualization environment was performed.

8.4. FSC's budgetary implementation report for 2019

The Financial Supervision Commission is a legal entity supported by the state budget pursuant to Article 2, Paragraph 3 of the FSCA. The Chairperson of the Commission is a first-level budget authorizing officer. The Commission's budget is drawn up, implemented and accounted for in accordance with the Public Finance Act.

The statement on cash amounts in FSC’s budget for 2019 reported a total **income** in the amount of **BGN 21,435,313**.

The structure of revenues for 2019 was as follows:

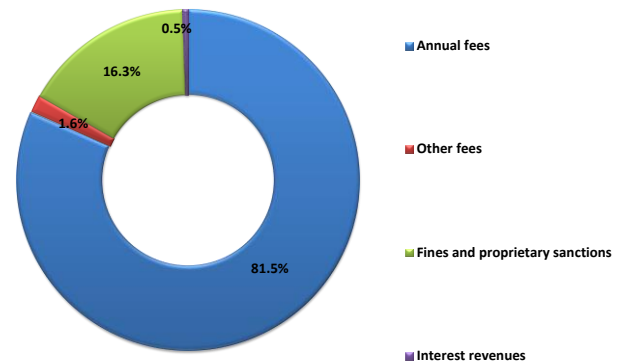
- income from state fees – BGN 18,451,608, according to the Tariff for fees collected by the FSC, annex to Art. 27, para. 1 of the FSCA (effective from 01.01.2018). Of the total amount, BGN 18,441,981 were received on the account and at a cash desk at the FSC, and BGN 19,963 were reported on the basis of orders received for amounts collected by the National Revenue Agency (NRA). The largest relative share (98.02%) of reported fees was the annual fee for overall financial supervision – BGN 17.665.683. The fees for the issuance of licenses and permits for carrying out activities and other permits and approvals amounted to BGN 357,373;

- **revenue from fines, pecuniary sanctions and interest - BGN 3,645,452.**, of which BGN 3,539,096 are fines and pecuniary sanctions under penal warrants that have entered into force, BGN 102,656 are interest for late payment of the annual fees for general financial supervision and penal decrees not paid

within the statutory term, and others - BGN 3,700. Of the total amount of these revenues, BGN 3,425,976 were received on the account of the FSC, and BGN 219,476 were reflected on the basis of received reports and orders for amounts collected by the NRA;

- **other non-tax revenues (-) BGN 233,195,195** – other non-tax revenues amounting to BGN 6,261, negative exchange difference (-) BGN 17, as well as the public receivables of the FSC collected by the NRA (-) BGN 239,439 were reported, which according to the instructions given by the Ministry of Finance were also reflected with a minus sign in the cash report.

Graph 19. Structure of FSC revenues in 2019



Source: FSC.

The statement on cash amounts in FSC’s budget for 2019 reported total **expenses** in the amount of **BGN 17,727,015**, distributed as follows:

- **staff costs – BGN 12,161,553**, including reported payroll costs and remuneration of employees, remuneration paid to employees on non-permanent posts, those employed under Resolution No. 66 of the Council of Ministers for staffing of certain positions in budgetary organizations of 1999, amounts paid for non-employment contracts, for social, household and cultural services for persons under employment contracts, for compensations to employees under the Labor Code and remunerations under Art. 40, para. 5 of the SIC, as well as costs for mandatory social insurance contributions due by the employer. The reported expenses for salaries and wages in 2019 amount to BGN 10,080,884;

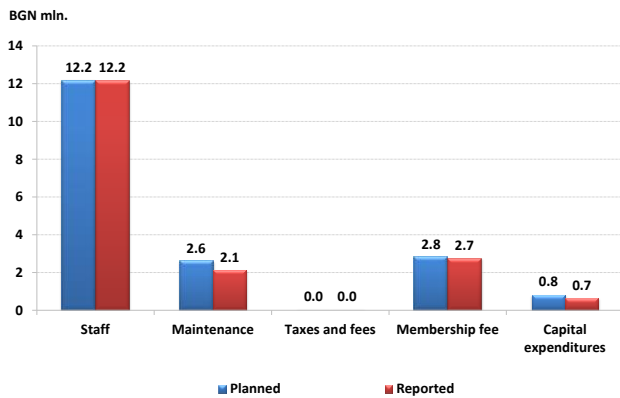
- **current operating costs - BGN 2,128,955**. The amount spent on rent, security, cleaning and maintenance of the administrative building of the FSC, electricity, telecommunication and postal services, software products support, insurance, office materials, consumables and other supplies and services. Funds were also reported for expenditure for specialized training of FSC employees and business trips in the country and abroad. The Financial Supervision Commission represents Bulgaria in the European Supervisory Authorities and is also a member of three international organizations. Expenditures planned for missions abroad were related to participation in the meetings of the governing bodies of European structures, working groups and trainings, annual conferences of international organizations. The largest relative share of operational costs is the expenditure for renting the administrative building of FSC.

- **costs for taxes and fees – BGN 42,990.**

- **costs of membership fee and participation in non-profit organizations and activities - BGN 2,743,429** The cost is for membership fees of the FSC in the European bodies: EIOPA and ESMA, as well as for annual membership fees in international organizations: IOSCO, IAIS and IOPS;

- **capital expenses – BGN 651,088**, BGN 298,146 of which were for acquisition of tangible fixed assets, and BGN 352,942 were for acquisition of licenses and software products.

Graph 20. Structure of FSC expenditures in 2019 – planned and reported



Source: FSC.

The statement on cash amounts in budget for 2019 reports a **transfer to the central budget** in the total amount of (-) BGN 3,707,876 and **surplus** in the amount of BGN 422, which in the part of the financing is reflected with a minus sign and is formed by available foreign funds BGN 1,192 and the difference from the initial and final balance on the foreign currency budget account (-) BGN 1,614.

8.5. Activity Report on the Internal Audit at FSC for 2019

The activity of the Internal Audit Unit (IAU) in 2019 was carried out in accordance with the requirements of the Public Sector Internal Audit Act, the International Standards for Professional Practice in Internal Auditing, the Code of Ethics of Internal Auditors and the Methodology issued by the Minister of Finance.

During the period, the Strategic Plan for the Internal Audit Activity for 2019-2021 and the Annual Plan for the Audit Annual Schedule of Audits for 2019 were implemented, which are developed on the basis of a risk assessment, approved by the Chairperson of the FSC and agreed with the Commission. The documents are in line with the task set before the IAU, according to the Action Plan prepared jointly with EIOPA, for the implementation of the recommendations of the Financial Sector Assessment Program.

In 2019, the internal audit fulfilled the planned commitments and activities, which is a condition for achieving the set goals. Audit engagements have been performed to provide assurance as follows:

- audit of supervisory practices and procedures of Social Insurance Supervision Division, Social Insurance Supervision Directorate, which aims to assess compliance with European regulations, national legislation, adequacy of internal rules, supervisory actions and management and control systems in 2018 g .;
- audit of supervisory practices and procedures of Investment Supervision Division for 2018 on the implementation of the Markets in Financial Instruments Act and regulations under Directive 2014/65 / EU of the European Parliament and of the Council of 15.05.2014 on financial instruments markets;
- audit of supervisory practices and procedures of Insurance Supervision Division for 2019 on the implementation of the provisions of the Insurance Code and directly applicable European legislation related to the activities and supervision of insurance brokers;

- audit of the activities for reviewing complaints filed against supervised entities of the FSC in 2017, which aims to assess the applicable legislation, legality and adequacy of internal rules, procedures and actions, financial management and control systems;
- an audit to establish consistency between the planned and actual actions undertaken in 2019, on the implementation of the recommendations of the IAU.

The internal audit fulfilled audit engagements for consultation, the most significant of which is related to the review and analysis of the orders issued in the FSC in the period 2008-2019 for approval of internal rules, procedures, agreements for cooperation and interaction with other state bodies and institutions, designation of permanent working groups and officials to carry out specific activities.

As a result of the audit assurance engagements, a total of 42 recommendations were made. The IAU monitored the implementation, maintaining a unified database of recommendations and the planned response actions (electronic register), applied procedures for monitoring the status of the results, performed inspections and reported (periodically and annually).

There is a lasting tendency for the recommendations of the IAU to be accepted by the management of the FSC and the employees of leading positions from the audited structures. In addition, a high implementation rate is reported (85%, including recommendations from a previous period), which is an indicator of the development of the internal auditors' ability to formulate appropriate proposals for improving the activity and control in the FSC.

In 2019, the number of recommendations made is lower than in the previous year, and the increased number of corrective actions taken during audit engagements should be noted. This shows effective communication, in order to remove the identified weaknesses in a timely manner and achieve improvements.

During the period, the amendments and improvements in the Commission as a result of the audit activity were mostly related to indicated need and possibilities for legislative changes.

As a result of the internal audit activity, the following main conclusions on the functioning of the financial management and control systems at the FSC could be drawn:

- The Commission established a steady process of goal setting with regard to the availability of outlined short-term strategic objectives, and determining of annual activities to achieve those. Budgetary sustainability and independence are a prerequisite for the successful development of the institution.
- Risk management is an integral part of the activities of the FS and of the general management process in the Commission. An improvement is the already introduced practice of developing the risk register of the FSC in parallel with the annual action plan of the organization. Development should be sought in the direction of continuous systematic upgrading of knowledge and experience in the field, in order to continuously improve the quality of these interdepartmental documents and their use as a practical tool.
- The rules and procedures governing the audited activities are generally risk-based. In addition, it is appropriate to deepen the analysis in order to identify the need for comprehensive settlement of certain procedures, as well as cases where unnecessarily complicated ones have been introduced, which should be simplified, given that the cost of resources (time and human) do not correspond to the benefits of their application.
- Control mechanisms were integrated in the FSC's activity, aimed mainly at compliance with applicable legislation and internal acts.

- The Commission is constantly making steps and efforts to build reliable information management and communication systems.
- At the FSC, activity was monitored effectively, thus allowing for changes and corrective actions, where necessary. In some cases, it should be deepened in order to achieve timeliness of the changes.

8.6. Report of the Inspectorate

The activity of the Inspectorate of the Financial Supervision Commission in 2019 was entirely subject to the objectives and activities set out in the Regulations on the Structure and Activities of the Financial Supervision Commission and its Administration, the Internal Rules for the Activities of the Inspectorate within the Financial Supervision Commission, as well as the other regulations detailing the activities of the inspectorates.

The Inspectorate of the FSC assists the Chairperson of the FSC in exercising their control functions with regard to the Commission administration's activity in compliance with the FSC Act, the Regulations on the Structure and Activities of the FSC and its Administration, the Law Against Corruption and the Forfeiture of Unlawfully Acquired Property, the Ordinance on the structure and the minimum number of inspectorates, the order and procedure of their activity and their interaction with the specialized control bodies, as well as other regulations.

In 2019, the FSC Inspectorate has set the following goals:

- Independent and objective assessment of the efficiency of the activities set in the annual plan in the administration of the FSC;
- Improving the activity of the administration in conducting the state anti-corruption policy through internal control and prevention of corruption;
- Preventing and remedying violations in the administration's functioning within the FSC;
- Providing the necessary professional knowledge and skills of inspectors by raising qualifications.

In order to achieve the set goals, the FSC Inspectorate performed:

- Inspections based on signals and proposals against illegal or improper actions or inactions by FSC administration officials;
- Inspections for compliance with the regulations and internal acts related to the organization of work in the FSC administration.
- Collecting and analyzing information and performance of inspections at their own initiative to ascertain violations, potential corruption and non-effective operation of the administration;
- Initiation of proposals for change of the legal framework, on the occasion of gaps, weaknesses and errors in the activity of the FSC administration.
- Reporting the results of the performed inspections and giving proposals for elimination of the identified gaps and violations.
- Monitoring for compliance with the recommendations and suggestions made during the inspections.
- Survey and assessment of training needs in the field of administrative control so as to achieve higher quality and professionalism of control functions.

When implementing its control functions, the Inspectorate performed a total of 23 scheduled and ad hoc inspections:

- 1 inspection for evaluation of the efficiency of the activity;
- 3 inspections for compliance with applicable laws, regulations and internal acts on the organization of the activities of administration officials;
- 16 inspections for submitting declarations under the LACFUAP;
- 1 inspection for illegal or improper actions or omissions of administration officials;
- 1 inspection on corruption and ineffective work;
- 1 inspection at the initiative of the authority.

In conclusion, it should be noted that from the completed inspections in 2019 it was established that the FSC administration has legally performed its assigned duties and has not committed administrative violations subject to sanctions. There were no illegal or improper actions or omissions of any FSC administration officials. No conflict of interests and non-compliance with the deadlines for submitting declarations under the LACFUAP have been established. Notwithstanding these conclusions, specific proposals have been made for correction and improvement of the activity of the respective administrative units in the FSC.

II. MARKET ANALYSIS OF THE NON-BANKING FINANCIAL SECTOR

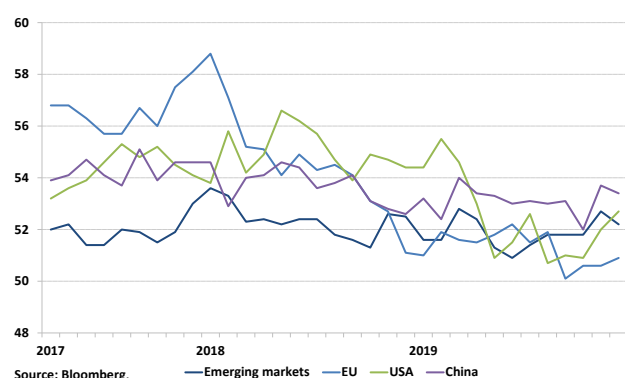
1. External environment and economic activity

1.1. External environment

The growth of the global economy is slowing down in 2019 to 2.9% from 3.6% in 2018. The main factor influencing the slowdown is the continuing trade tensions between the United States and China for most of 2019. In the last months of the year, a partial trade agreement was signed, reducing some customs tariffs in trade between the two countries. Declining global economic activity and weaker external demand are having a negative impact on the economies of some eurozone countries, and an additional factor is the uncertainty stemming from Britain's exit from the EU and future trade and financial relations between the Community and the United Kingdom.

The slowdown in the global economy, affected by trade disputes between the US and China, has a negative impact on most general PMIs in 2019. The total average annual value of the index for the US fell in 2019 to 52 points from 55 points in 2018. The value of the EU index in 2019 also fell to 51 percentage points on average from 55 percentage points on average in 2018, just above the 50-point reference limit that separates economic expansion from economic contraction.

Graph 21. Composite PMIs



The Emerging Markets Composite PMI Index as an average annual value for 2019 remains unchanged from the previous year at the level of 52 points, and the average annual value of PMI for China is a minimum decrease to 53 points compared to 2018.

The industrial production index in the EU in 2019 decreased to 103% points in the EU from 106.1% in 2018. Reduced costs for investment in fixed assets and the slowdown in global activity are the factors influencing the weaker demand for industrial goods.

Graph 22. Industrial production index (excluding construction)



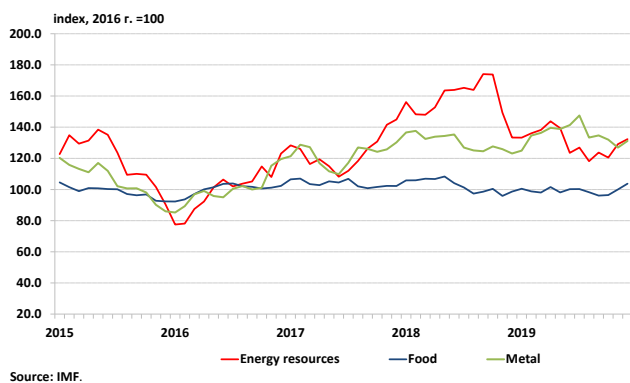
The decrease in international prices of metals and energy in the second half of 2019 is mainly due to reduced global economic activity. Metal prices are falling in line with weaker global demand and the deepening trade conflict between the US and China for most of 2019.

Changes in the price of oil during the year are influenced by factors such as reduced demand for

the raw material against the background of relatively higher supply.

The price index of agricultural products traded on international markets is moving in both directions. Growth was reported in the last quarter of the year for meat, its rise in price was influenced by the spread of African swine fever in the world. At the same time, the price of wheat decreased slightly over the same period.

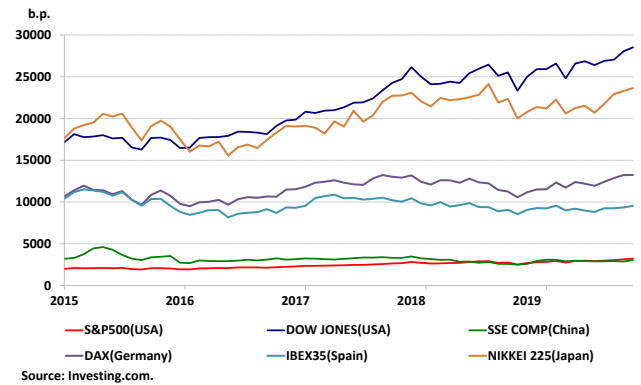
Graph 23. Dynamics of prices of food, energy resources and metals



Global capital markets reported an upward trend in 2019, which was more tangible in the second half of the year, approving the renewed accommodative monetary policy of the leading central banks in response to the slowing economic growth. In the euro area, the German DAX rose by 18.6% and the Spanish IBEX35 by 5.4%.

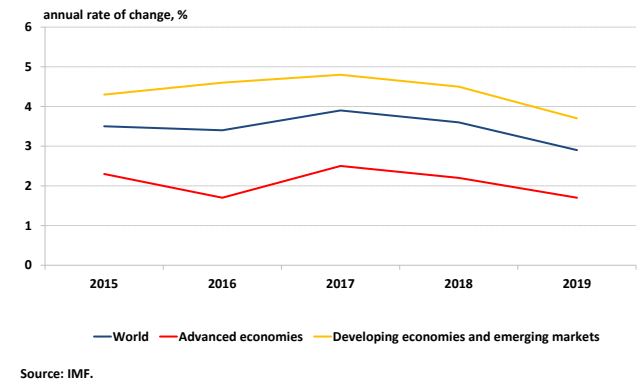
The US indices S&P500 and Dow Jones increased by 19.5% and 14.2%, respectively for 2019. Asia's stock markets in 2019 also went up, with Chinese SSE COMP increasing by 18% and Japanese NIKKEI225 increasing by 13.9%. Notable optimism drove the stock exchanges at the end of 2019 in anticipation of the signing of a trade deal between the United States and China.

Graph 24. Capital markets



Global economic growth in 2019 slowed to 2.9% compared to 3.6% in 2018. Developed economies, on the one hand, and emerging markets and developing countries, on the other hand, slowed to 1.7% and 3.7% in 2019, respectively compared to 2.2% and 4.5% in 2018. Growth in China dropped to 6.1% in 2019 compared to 6.6% in 2018 as a result of weaker external demand due to lower global economic activity.

Graph 25. Real GDP growth

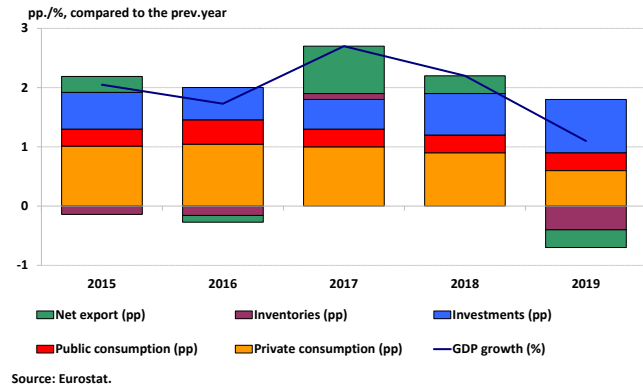


Real GDP growth in the euro area in 2019 is slowing to 1.1% compared to 2.2% in 2018. The main driver of growth is investment (0.9 percentage points), followed by household consumption, which contributes by 0.6 percentage points to GDP growth. A constraint on growth are stocks (-0.4 percentage points), which are in negative territory due to reduced economic activity. Net exports are also negative, falling in

2019 to -0.3 percentage points. from 0.3 percentage points for 2018

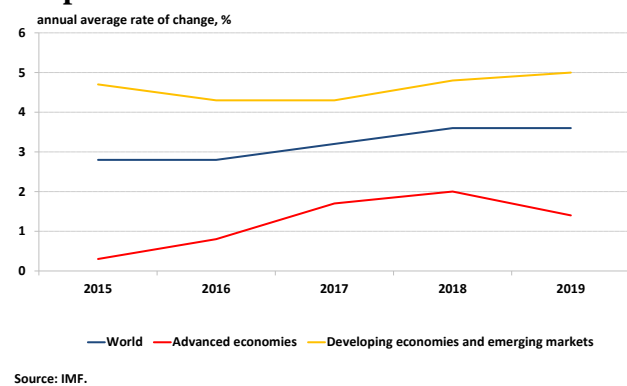
GDP growth in the UK is unchanged at 1.4% in 2019.

Graph 26. GDP growth in the euro area



In 2019, the dynamics of average annual inflation in different groups of countries is divergent. In developed economies, inflation fell to 1.4% in 2019 from 2% in 2018, remaining below central bank targets of 2%. Inflation in emerging markets and developing economies will rise to 5% in 2019 from 4.8% in 2018. Globally, inflation is unchanged -3.6% in 2019.

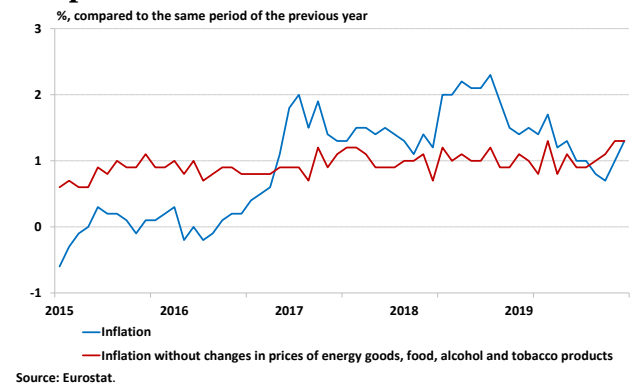
Graph 27. Global inflation



Average annual inflation in the euro area fell to 1.2% in 2019, from 1.8% in 2018, due to weaker economic activity, lower external demand and lower oil prices. The average annual inflation, measured excluding the prices of energy goods, food, alcohol and tobacco products, had a minimal increase of up to 1.1%. The weak rise in inflation

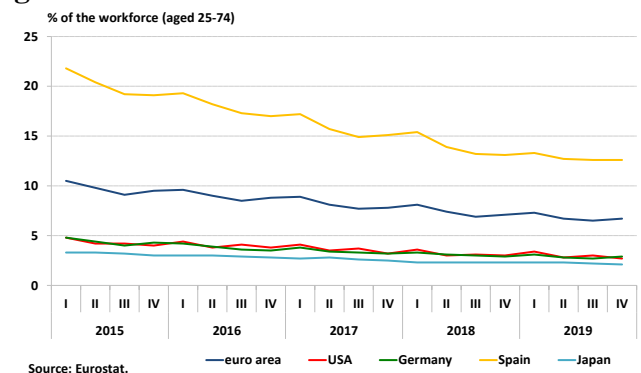
at the end of the year was mainly due to rising energy prices.

Graph 28. Inflation in the euro area



The labor market for the most part in 2019 reached historically low unemployment rates in some countries. The average unemployment rate in the euro area fell to 6.8% in 2019 compared to 7.4% in 2018. Unemployment is highest in Greece (17.3%) and Spain (14.1%). The unemployment rate remains the lowest in the Czech Republic (2.2%). The US labor market is improving, with the unemployment rate falling to 3.7% in 2019 from 3.9% in 2018.

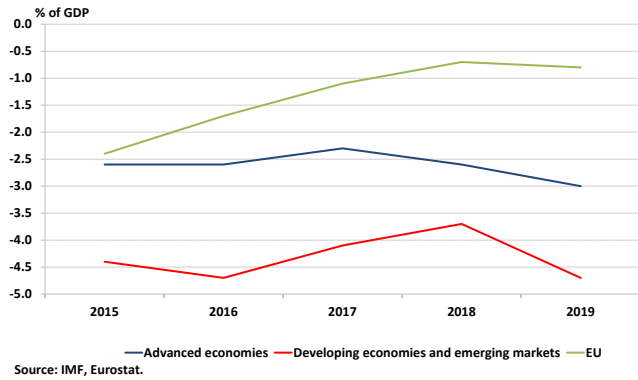
Graph 29. Unemployment dynamics on a global scale



In 2019, the budget deficit worldwide continued to grow. The budget balance in developed economies remains in negative territory, expanding to -3% in 2019 from -2.6% in 2018. The budget deficit in the EU stops its shrinking trend over the last four years and in 2019

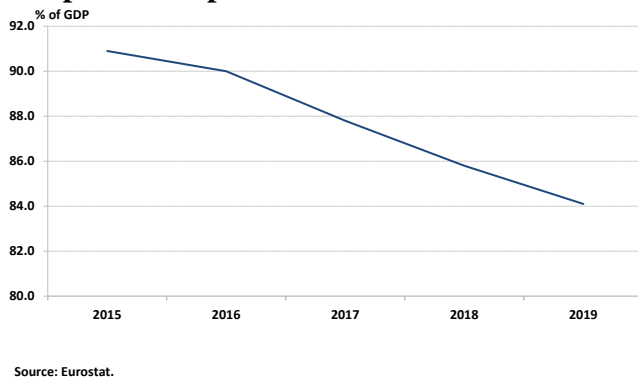
increases to - 0.8% for 2019 compared to -0.7% in 2018. The budget deficit in emerging markets and emerging economies also deepens to -4.7% in 2019 from -3.7% in 2018.

Graph 30. Balance of public finances



The total public debt of the EU countries (19) as a percentage of GDP in 2019 decreased to 84% from 86% in 2018. Greece slowed its debt to 177% in 2019 from 181% in the previous year. Italy's total government debt remains unchanged at 135% in 2019. Portugal slows its indebtedness to 118% in 2019 from 122% in 2018.

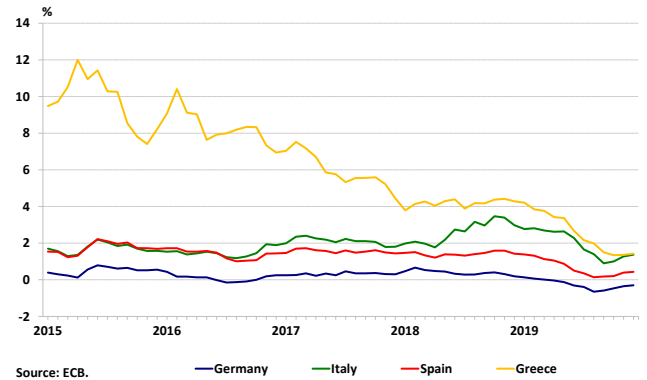
Graph 31. EU public debt



The yield of 10-year government securities (GS) in 2019 continues to decline, with the average yield on Greek government securities reaching 2.6%, Italian - 2%, and Spanish - 0.7%. The average annual yield on German government securities remained in negative territory (-0.3%). The known increase in interest rates on government securities in some countries at the end

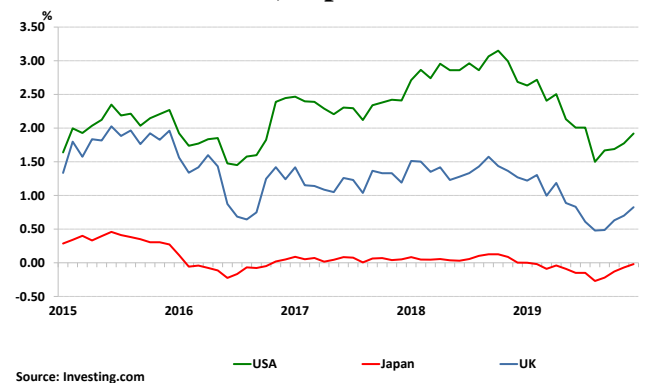
of 2019 is related to the desire to attract investor interest in buying government debt issued.

Graph 32. Yield of 10-year government securities of Germany, Italy, Spain and Greece



In 2019, the 10-year government securities of the United States and Japan have average annual yields of 2.1% and 0.1%, respectively. The high yield on US government securities is due to tensions in trade relations with China. In 2019, the British government securities reduced their average yield to 0.9% compared to the previous year, after the way for the country to leave the EU gradually became clear.

Graph 33. Yield of 10-year government securities of the US, Japan and UK



In the last months of 2019, the euro depreciated against the dollar, reaching a rate of 1.12 USD. dollars per euro as a result of weaker economic growth in the euro area and declining trade tensions between the United States and China at the end of the year.

Graph 34. USD/EUR Exchange Rate

Source: ECB.

In 2019, most countries in Central and Eastern Europe (CEE) report a slowdown in real GDP growth due to a slowdown in global economic growth and reduced external demand, especially from the euro area, which is their main trading partner. The least affected is Hungary, which reports the highest growth among the CEE countries (4.9%). The Polish and Romanian economies slowed down in 2019 to 4.1% from 5.1% and 4.4% in 2018. The Turkish economy slowed to 0.9% in 2019 from 2.8% in 2018.

Table 23. Real GDP growth in CEE

	2018	2019
Czech Republic	2.8	2.6
Hungary	5.1	4.9
Poland	5.1	4.1
Romania	4.4	4.1
Turkey	2.8	0.9

Note: Annual rate of change (%).
Source: IMF, National Statistical Institutes.

In 2019, inflation in the CEE countries has a different dynamics. The inflation in the Czech Republic and Poland has the highest growth, which increased to 2.9% and 2.3% in 2019, respectively, from 2.2% and 1.6% in 2018. Inflation in Turkey in 2019 decreased to 15.2% from 16.3% for 2018, but remains significantly higher than the regional average. The reasons are the weak Turkish lira, the high costs of producers whose loans are in US dollars, the closure of production and others.

Table 24. Inflation in CEE

	2018	2019
Czech Republic	2.2	2.9
Hungary	2.8	3.4
Poland	1.6	2.3
Romania	4.6	3.8
Turkey	16.3	15.2

Note: Annual rate of change (%).
Source: IMF, National Statistical Institutes.

In the CEE countries, unemployment levels are diversified in 2019. In the Czech Republic and Hungary, unemployment fell to 2.1% and 3.4% in 2019, respectively, from 2.4% and 3.6% in 2018. Unemployment in Turkey in 2019 is rising to 13.7% from 10.1% for 2018.

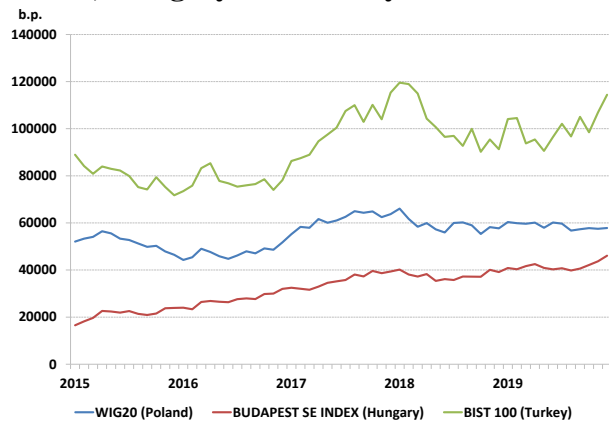
Table 25. Unemployment rate in CEE

	2018	2019
Czech Republic	2.4	2.1
Hungary	3.6	3.4
Poland	3.3	3.5
Romania	4.3	3.9
Turkey	10.1	13.7

Note: Share (%) of the workforce.
Source: IMF, National Statistical Institutes.

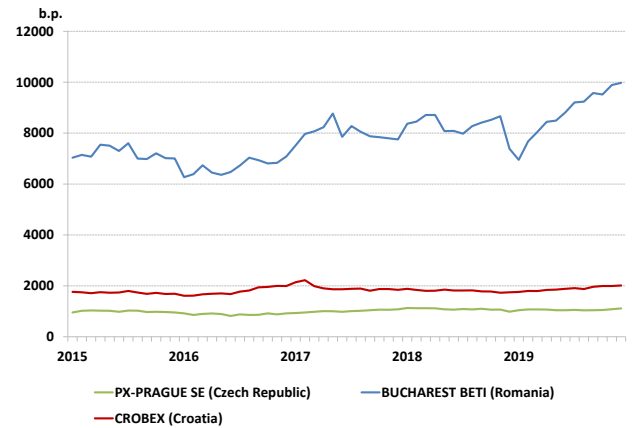
In 2019, the values of most stock exchange indices in the CEE countries will also increased. During the year the Romanian BUCHAREST BETI increased by 43.5%, the Croatian CROBEX increased by 14.5%, the Hungarian BUDAPEST SE INDEX increased by 12.8%, the Turkish BIST100 and the Czech PX-PRAGUE SE increased by 10% and 6.9% respectively. Only the Polish WIG20 reported a decline of -4.2% in 2019, due to sales of shares in the utilities and banks sectors at the end of the year.

Graph 35. Capital markets dynamics in Poland, Hungary and Turkey



Source: Investing.com.

Graph 36. Capital markets dynamics in the Czech Republic, Romania and Croatia



Source: Investing.com.

1.2. Overview of economic activity in Bulgaria

In 2019, the real growth of the Bulgarian economy reported growth, close to last year's, amounting to 3.4% according to preliminary data, to which domestic demand has the largest contribution.*. The current account surplus expanded to EUR 5.9 billion during the year, or 9.7% of GDP. The volume of foreign direct investment in Bulgaria amounts to EUR 1.1 billion, which is only EUR 64.5 million more than their volume in the previous year. The country's gross external debt increased by 0.8% and amounted to EUR 34.1 billion at the end of the year. Lending activity intensified during the year, with lending to households growing at a faster pace. In 2019, the budget balance is in deficit of BGN 1.1 billion, which amounts to -1.0% of GDP. Consumer price inflation remains at the level of 2018, accelerating to 3.1% on an annual basis at the end of the year. The housing price index slows down its positive rate of change on an annual basis from 6.6% on average in 2018 to 6.0% in 2019.

As a result of sustainable economic development without the accumulation of macroeconomic imbalances, the international rating agency S&P Global Ratings raised Bulgaria's credit rating to 'BBB' with a positive outlook.

For the seventh consecutive year, the total current and capital account balance continues to be positive, rising to EUR 6.9 billion in 2019. For the period January - December 2019, the current account surplus amounted to EUR 5.9 billion, which represents 9.7% of GDP²⁴. Mainly as a result of the larger capital transfers received under EU operational programs, the capital account surplus increased to EUR 954.1 million.

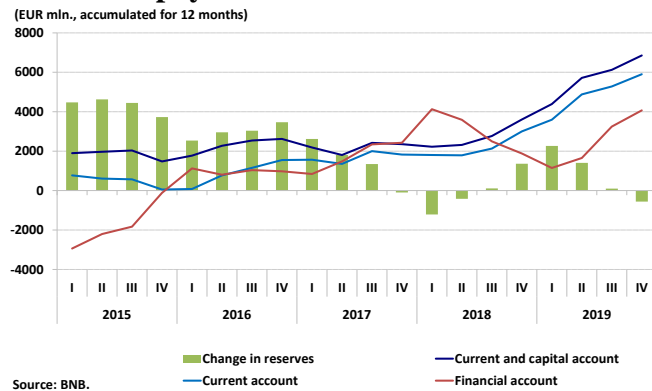
The balance on the financial account for the year is positive (EUR 4.1 billion), which is EUR 2.2 billion more than the reported positive balance in 2018. According to the balance of payments, the country's international foreign exchange reserves decreased by EUR -559.4 million. After accounting for exchange rate differences and price revaluations, the foreign exchange reserves in the BNB balance sheet decreased by EUR -236.6 million (BGN -0.5 billion), as the assets of the

* The review has been prepared based on publicly available data as of 14.04.2020.

²⁴ According to preliminary data of the National Statistical Institute, the GDP in 2019 was BGN 118.7 million.

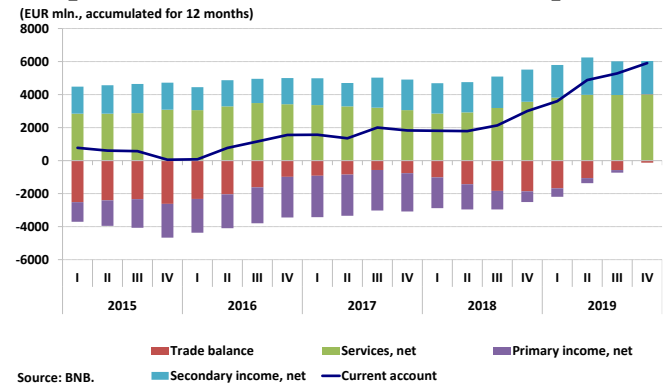
Issue Department amounted to BGN 48.5 billion. at the end of 2019

Graph 37. Dynamics of main accounts of the balance of payment



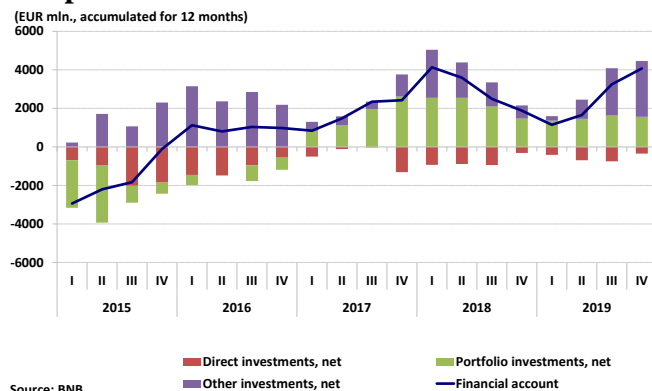
The significant widening of the current account surplus by EUR 2.9 billion in 2019 compared to the previous year is mainly due to a contraction of the negative trade balance by EUR 1.7 billion, which at the end of 2019 amounted to EUR -128.0 million. The main factors for this dynamics are the higher growth of real exports of goods compared to that of real imports and the favorable trade conditions for the Bulgarian economy. The "Primary income, net" item came out in surplus (EUR 14.6 million) in the period January - December mainly due to the lower amount of dividends paid and distributed profit to non-residents. A positive contribution to the larger current account surplus in 2019 was also made by the widening of the positive balance on services (by EUR 451.7 million) as a result of both the favorable price trends and the weaker decline in real exports of services compared to that of imports.

Graph 38. Current account and its components



For the period January-December 2019, the financial account balance amounted to EUR 4.1 billion, which was EUR 2.1 billion more than the positive balance in 2018. The main contribution to the observed financial account dynamics during the year was the significantly larger increase in foreign assets compared to foreign liabilities in 2019. All sectors make a positive contribution to the dynamics of foreign assets. The largest increase in foreign assets was observed in "Other sectors" as a result of the acquisition of long-term debt securities issued by non-residents. The foreign assets of the General Government sector also increased, mainly as a result of a \$ 1.2 billion transaction by the government in August in connection with the \$ 1.2 billion acquisition of a new type of combat aircraft investment project. Banks also saw an increase in foreign assets, mainly in the form of currency and deposits. There was an increase in foreign liabilities on the financial account during the period only in "Other sectors" as a result mainly of the direct investments attracted by them.

Graph 39. Financial account and its components



For the period January - December 2019, the flow of foreign direct investment (FDI) in the country amounted to EUR 1.1 billion, which is EUR 64.5 million more than the previous year. Most of the FDI in Bulgaria during the year took the form of reinvested earnings (EUR 817.2 million), which decreased by EUR -396.8 million compared to 2018, and debt instruments (EUR 639.4 million), which decreased by EUR 1.239 billion more than in the previous year. The flow of FDI in the form of share capital, other than reinvested earnings, was negative and amounted to EUR -364.2 million.

Table 26. FDI dynamics in Bulgaria by type of investment

	2015	2016	2017	2018	2019
Total	2000.9	927.2	1618.9	1027.9	1092.4
Equity and investment fund shares/units	1586.0	255.3	-6.2	390.4	-364.2
Reinvestment of earnings	938.5	1091.3	860.6	1214.0	817.2
Debt instruments	-523.7	-419.4	764.5	-576.4	639.4

Note: Data refer to the volume of FDI in the country (in EUR mln.).
Source: BNB.

The distribution of FDI in Bulgaria by sectors in 2019 is characterized by some change compared to the previous year. The Trade Sector; repair of motor vehicles and motorcycles”, which in 2018 ranks third, in 2019 attracted the largest volume of FDI amounting to EUR 523.3 million, followed by the real estate sector (EUR 233.4 million). EUR) and the Manufacturing sector (EUR 97.7 million).

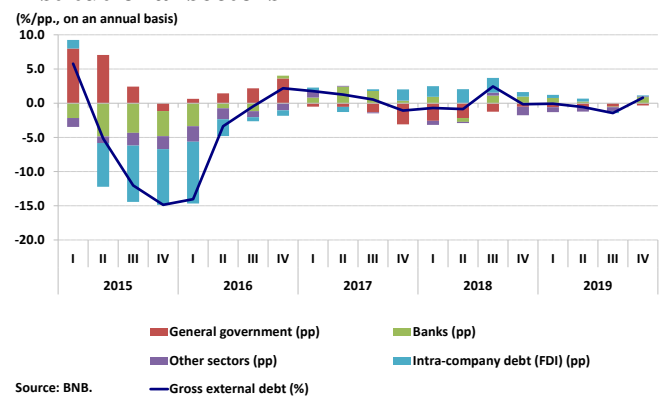
Table 27. FDI structure in Bulgaria by economic activity

	2015	2016	2017	2018	2019
Mining and quarrying	-67.4	-22.6	-21.4	11.2	20.4
Manufacturing	551.9	236.9	1099.5	1281.8	97.7
Electricity, gas, steam and air conditioning supply	74.8	15.0	-206.9	-109.9	46.8
Construction	178.9	23.2	175.9	-96.3	33.7
Wholesale and retail trade; repair of motor vehicles and motorcycles	435.3	477.5	339.6	135.6	523.3
Transportation and storage	53.8	8.0	5.5	10.4	15
Accommodation and food service activities	12.1	24.9	-18.3	-14.1	-10.5
Information and communication	84.6	19.4	-243.1	45.5	70.7
Financial and insurance activities	460.3	179.2	294.6	583.5	-41.6
Real estate activities	-41.6	-41.9	345.7	-148.9	233.4

Note: Data are in EUR mln. The structure covers ten leading economic sectors.
Source: BNB.

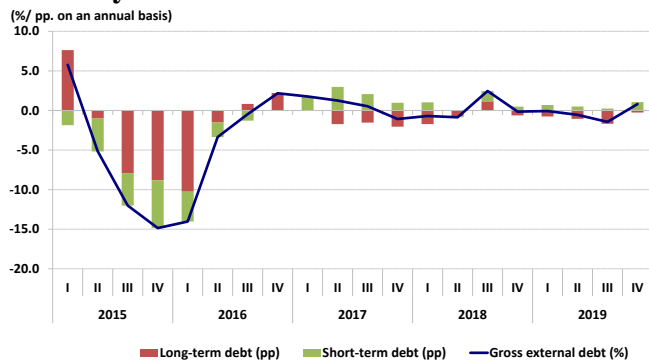
In 2019, the country's gross external debt increased by 0.8% on an annual basis, reaching EUR 34.1 billion at the end of the year, which represents 56.2% of GDP. The largest contribution to the increase in debt was made by the increase in banks' foreign liabilities (0.9 percentage points). Only the debt of the General Government sector reported a decrease and limited the total growth of our gross external debt by -0.3 percentage points.

Graph 40. Dynamics of gross external debt by institutional sectors



In line with the overall dynamics of gross external debt in 2019, its short-term component increased by 4.4% on an annual basis and represented 24.7% of total external debt at the end of the year. Long-term debt decreased by -0.3% and reached a share of 75.3% of the country's external debt at the end of 2019.

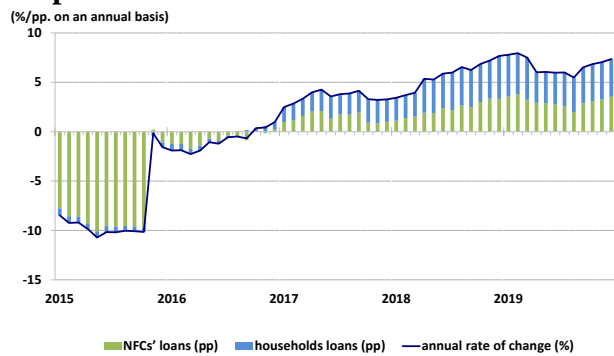
Graph 41. Dynamics of gross external debt by maturity structure



Source: BNB.

The trend of increasing bank loans to the private non-financial sector continues, and in 2019 loans to non-financial corporations and households in Bulgaria recorded an average annual growth of 6.7%. Loans to households grew at a faster pace (9.5%), contributing 3.8 percentage points to the total growth of lending to the private non-financial sector at the end of the year. Loans to non-financial corporations reported a smaller growth of 5.9% at the end of the year, contributing 3.5 percentage points to the general dynamics.

Graph 42. Dynamics of loans to non-financial corporations and households



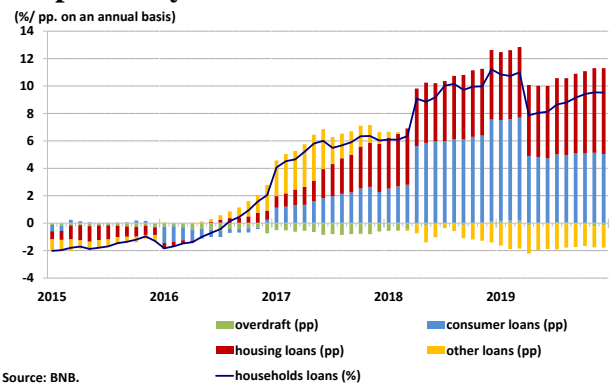
Source: BNB.

The growth of loans to households in 2019 is mainly due to the increase in housing loans by 14.5% at the end of the year, which contributes by 6.3 percentage points to the total growth of loans to households. After exhaustion of the one-time effect (“BNP Paribas Personal Finance SA - Bulgaria Branch ” is included as a reporting unit in the scope

of monetary statistics from April 2018), consumer loans reported an increase of 10.8% at the end of 2019 and contributed by 5.0 percentage points. Loans other than consumer and housing, as well as overdrafts limit the overall growth with their negative contribution of -1.8 percentage points.

In 2019, the trend of improving the quality of the banks' loan portfolio continues, as at the end of the year the gross amount of non-performing loans and advances in the banking system amounted to BGN 6.1 billion, and their share in the total amount of gross loans and advances decreases to 6.5%. The net value of non-performing loans and advances, after deducting the impairment inherent in this classification category, also decreased and at the end of 2019 amounted to BGN 3.2 billion. or 3.5% of the total net value of loans and advances.

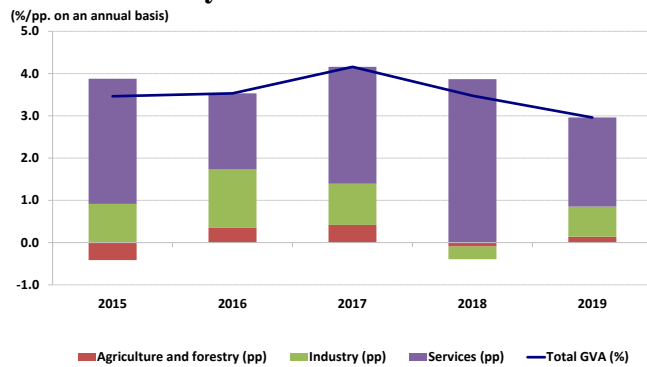
Graph 43. Dynamics of loans to households



Source: BNB.

Total value added in the economy grew in real terms by 3.0% in 2019, to which the service sector (2.1 percentage points) contributed the most, followed by industry (0.7 percentage points), and agriculture and forestry (0.1 percentage points).

Graph 44. Dynamics of Value Added and contribution by sectors



Source: NSI.

A detailed breakdown of value added in the economy by sectors shows that among services the largest contribution to the growth of gross value added in 2019 is reported by the General government sector; education; human health and social work ”(0.7 percentage points), followed by the real estate activities sector (0.5 percentage points). The third sector in terms of value added is a representative of the industry - sector “Mining and quarrying; manufacturing industry; production and distribution of electricity and heat and gaseous fuels; water supply; sewerage, waste management and remediation activities”, with a contribution of 0.6 percentage points. to the growth of total value added in the economy.

Table 28. Dynamics of Gross Value Added by sectors

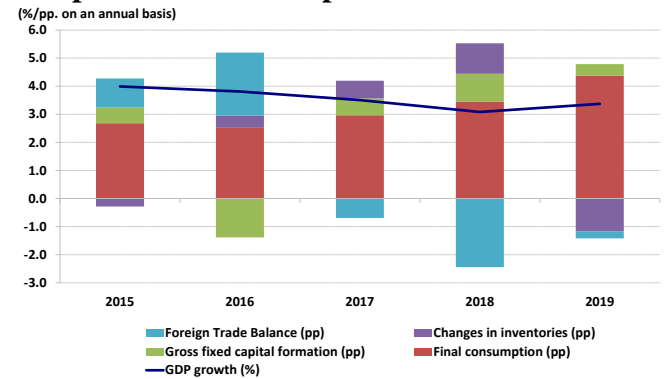
	2015	2016	2017	2018	2019
Total for the economy (%)	3.5	3.5	4.2	3.5	3.0
<i>Contribution (pp), incl:</i>					
Agriculture, forestry and fisheries	-0.4	0.4	0.4	-0.1	0.1
Manufacturing; Mining and quarrying; Electricity, gas and water supply	0.7	1.7	0.8	-0.4	0.6
Construction	0.2	-0.3	0.2	0.1	0.1
Wholesale and retail trade, repair of motor vehicles and motorcycles; transportation and storage, accommodation and food service activities	1.5	0.2	0.6	0.9	0.1
Creation and distribution of information and creative products; telecommunications	0.1	0.9	0.4	0.6	0.2
Financial and insurance activities	-0.1	0.5	0.1	0.2	0.3
Operations with real estate	0.3	0.6	0.7	1.1	0.6
Professional activities and research; Administrative and auxiliary activities	0.6	0.1	0.1	0.5	0.2
Public administration, defence, education, human health and social work activities	0.3	-0.5	0.8	0.4	0.7
Culture, sports and entertainment; Others	0.2	0.0	0.1	0.1	0.1

Note: Data for 2019 are preliminary.
Source: NSI.

According to preliminary data, real GDP growth in 2019 amounts to 3.4% on an annual

basis. The main factor of economic growth is domestic demand, which contributes 3.6 percentage points. Among the components of domestic demand, end consumption is the strongest (4.4 percentage points), while investment shrinks by -0.8 percentage points, among which the contributions of changes in inventories and fixed capital formation are in the opposite direction. respectively -1.2 percentage points and 0.4 percentage points. A decrease in real terms was reported by net exports, which limited GDP growth with its negative contribution of -0.3 percentage points.

Graph 45. GDP growth and contribution of components of final expenditures



Source: NSI.

Exports of Bulgarian goods and services in 2019 amounted to EUR 29.8 billion, increasing by 4.2% compared to the previous year. The largest contribution to the overall growth was made by exports of consumer goods (1.7 percentage points), followed by exports of energy resources (1.3 percentage points), raw materials (1.0 percentage points) and capital goods (0.2 percentage points).

Table 29. Contribution of main groups of goods to the exports' dynamics

	2018	2019
Exports (% on an annual basis)	2.6	4.2
<i>Contribution (pp)</i>		
Consumer goods	0.9	1.7
Raw materials and supplies	1.8	1.0
Investment goods	0.6	0.2
Energy resources	-0.7	1.3

Source: BNB.

Imports of goods and services grew at a slower nominal rate than exports in 2019 (3.6%), amounting to EUR 33.3 billion. The main contribution to this dynamics is made by the import of consumer goods (2.2 percentage points), investment goods (1.3 percentage points) and energy resources (1.0 percentage points). Only imports of raw materials and supplies (-0.9 percentage points) made a negative contribution.

Table 30. Contribution of main groups of goods to the import's dynamics

	2018	2019
Imports (% on an annual basis)	6.2	3.6
<i>Contribution (pp)</i>		
Consumer goods	1.4	2.2
Raw materials and supplies	2.2	-0.9
Investment goods	2.4	1.3
Energy resources	0.1	1.0

Source: BNB.

In 2019, the real growth of final consumption accelerated to 5.7% from 4.6% in 2018. The main driving force for the reported dynamics is the individual consumption of households (4.6 percentage points), and the individual consumption of the government contributes by 0.5 percentage points. Collective consumption, which measures the government's final expenditure on collective services provided to society as a whole, is growing, contributing 0.7 percentage points to real growth in total end consumption.

Table 31. Growth of final consumption expenditure and contributions of its components

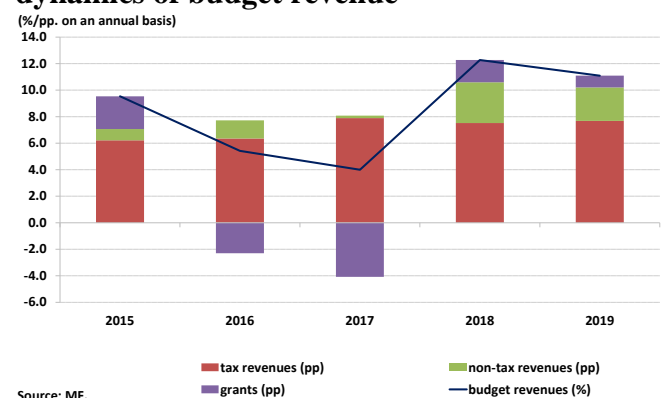
	2015	2016	2017	2018	2019
Final consumption (%)	3.4	3.2	3.9	4.6	5.7
<i>individual consumption (pp)</i>	<i>3.0</i>	<i>3.0</i>	<i>3.3</i>	<i>4.1</i>	<i>5.0</i>
<i>consumption of households (pp)</i>	<i>3.0</i>	<i>2.8</i>	<i>3.0</i>	<i>3.5</i>	<i>4.6</i>
<i>individual consumption of general government (pp)</i>	<i>0.0</i>	<i>0.2</i>	<i>0.3</i>	<i>0.6</i>	<i>0.5</i>
<i>collective consumption (pp)</i>	<i>0.4</i>	<i>0.3</i>	<i>0.6</i>	<i>0.5</i>	<i>0.7</i>

Note: Data for 2019 are preliminary.
Source: NSI.

The budget balance under the Consolidated Fiscal Program (CFP) in 2019 is negative at BGN 1.1 billion, which represents a deficit of -1.0% of GDP. Revenues reported an increase of 11.1%, which is mainly due to tax revenues (7.7

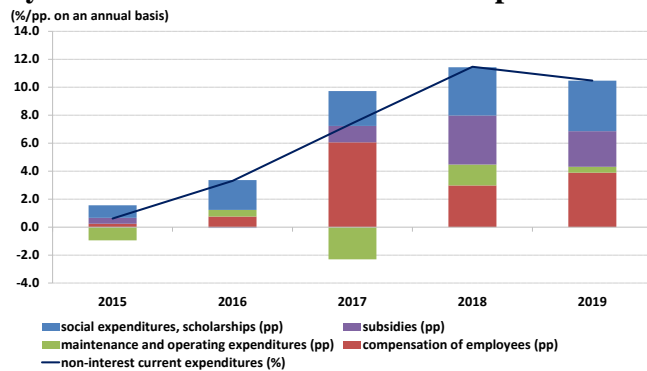
percentage points), while non-tax revenues and grants contributed by 2.5 percentage points, respectively and 0.9 percentage points. Among the tax revenues, the revenues from indirect taxes have the largest contribution (3.3 percentage points), while the revenues from social and health insurance contributions and direct taxes contribute by 2.7 percentage points, respectively. and 0.9 percentage points to the total growth of budget revenues.

Graph 46. Contribution of components to the dynamics of budget revenue



Budget expenditures increased by 14.4% in 2019 compared to the previous year, to which current expenditures contributed the most (8.5 percentage points), while capital expenditures had a positive contribution of 5.7 percentage points. Current non-interest expenses increased by 10.5% on an annual basis, with the largest contribution coming from expenditures on salaries and social security contributions (3.9 percentage points), followed by expenditures on social security, assistance and care (3.6 percentage points) and subsidies (2.5 percentage points) and maintenance costs (0.4 percentage points).

Graph 47. Contribution of components to the dynamics of non-interest current expenditure



Source: MF.

In 2019, employment in Bulgaria reported an increase of 2.6% on an annual basis, as the number of employees aged 15 and over was 3.2 million. This trend is due to both employment growth for men (1.5 percentage points) and employment growth for women (1.1 percentage points). Employment is also growing in all age groups, with the largest contribution coming from growth among workers over 45 (2.3 percentage points).

The number of persons in paid employment decreased by -3.6% on an annual basis to 2.2 million people. This trend is almost entirely due to a decline in employees in the private sector (-3.6 percentage points). By economic activities, the number of employees decreased mainly in the manufacturing industry (-1.2 percentage points), in the Transport, storage and post services sector (-0.6 percentage points), as well as in hotels and restaurants (-0.5 percentage points).

The income of employees measured by compensation of employees, representing gross income that also included changes in social insurance contributions, increased by 7.7% in 2019 compared to an increase of 10.6% in the previous year. The unemployment rate continued to decrease reaching the historical minimum of 4.2% of the workforce in 2019.

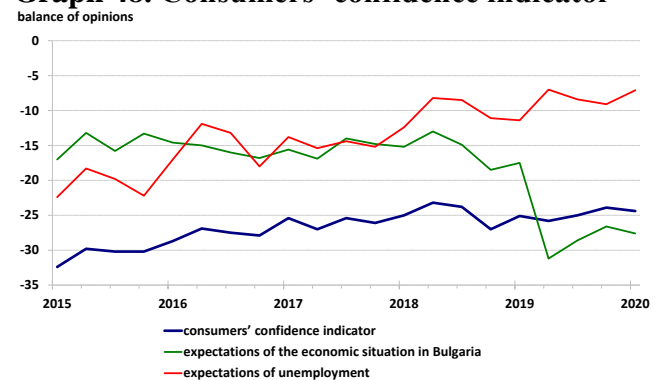
Table 32. Employment and income

	2015	2016	2017	2018	2019
Employed persons	1.7	-0.5	4.4	0.1	2.6
Employees	0.6	1.0	1.4	0.5	-3.6
Compensation of employees	6.7	7.7	10.9	10.6	7.7
Unemployment*	9.1	7.6	6.2	5.2	4.2

Note: Data show a change compared to the previous year, as data for 2018 are preliminary; *unemployment coefficient is period average (% of the workforce).
Source: NSI.

In 2019, consumer confidence is recovering from its decline in the second half of 2018, as the indicator is supported by consumer expectations for unemployment and consumer intentions to buy or build housing in the next 12 months. The more pessimistic expectations of consumers about the economic situation in the country are influencing the deterioration of consumer confidence.

Graph 48. Consumers' confidence indicator



Source: NSI.

Note: Unemployment expectations are taken with the opposite sign. An increase in the indicator means that consumers have optimistic expectations and vice versa.

Household incomes in 2019 accelerated their growth to 6.8% on an annual basis, to which salaries (5.0 percentage points) and pensions (1.8 percentage points) had the largest contribution. Restrictions on non-wage income (-0.3 percentage points) and other income (-0.2 percentage points) restrict the growth of household incomes during the year. The savings withdrawn by households decreased by -3.5%, as well as the loans and credits received by them (-25.9%) in 2019.

Table 33. Dynamics of household incomes

	2015	2016	2017	2018	2019
Total	1.9	1.9	6.0	4.8	6.8
Salary and wages	3.4	0.6	6.1	6.9	8.9
Withdrawn savings	0.9	18.7	15.3	11.6	-3.5
Loans and credits	-23.1	19.5	11.1	62.0	-25.9

Note: Data are on an annual basis (%).
Source: NSI.

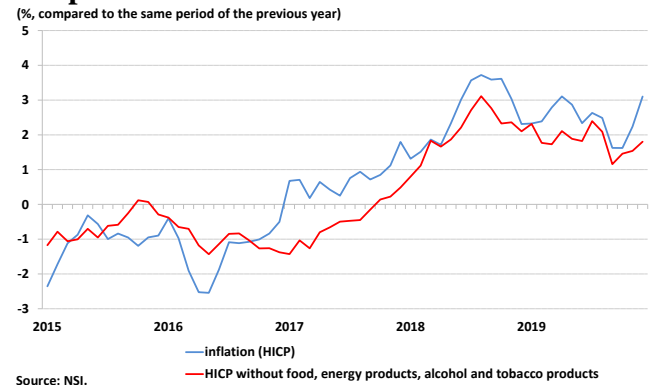
Household expenditures in 2019 grew at a slower pace (4.9%) compared to their incomes, as well as compared to the growth of expenditures in the previous two years. Consumer spending increased by 5.2%, to which the largest contribution was made by an increase in expenditure on food (1.2 percentage points) and healthcare (1.1 percentage points). Household expenditures on taxes and social security increased by 6.6% and 9.6%, respectively, which contributed by 0.4 percentage points, respectively, and 0.7 percentage points to total costs. In 2019, the propensity of households to save is growing, with their deposit expenditures growing by 22.6%, and the funds allocated for debt repayment or lending continue to shrink, albeit by very little (-0.3%).

Table 34. Dynamics of households' expenditures

	2015	2016	2017	2018	2019
Total	2.4	-0.4	7.6	7.7	4.9
Total consumer expenditures	2.3	-1.3	6.9	6.7	5.2
Taxes	4.5	4.3	15.0	6.9	6.6
Deposit	15.0	45.1	41.8	5.2	22.6
Paid debt and granted loan	-8.6	-9.2	-3.0	-15.3	-0.3

Note: Data are on an annual basis (%).
Source: NSI.

In 2019, inflation is in positive territory, as its average annual value (2.5%) is close to last year's value (2.6%), and by December it increased to 3.1%. Excluding volatile prices of food, energy products, alcohol and tobacco, core inflation reported a lower rate of change, averaging 1.8%.

Graph 49. Inflation

The largest contribution to the inflation accumulated during the year was made by food products (1.4 percentage points) and services (0.9 percentage points). Among the services, the prices of public catering have the largest contribution to the general inflation (0.3 percentage points), and the prices of the telecommunication services limit the general growth of the consumer prices with their negative contribution of -0.1 percentage points. Prices of manufactured goods also increased and contributed by 0.6 percentage points to headline inflation, among which the prices of liquid and transport fuels have a positive contribution of 0.3 percentage points. Administrative prices are also rising.

Table 35. Contribution of main groups of goods to inflation

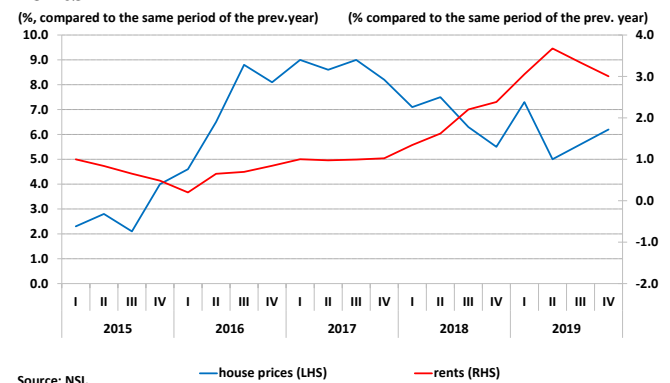
	2017	2018	2019
Inflation (% compared to Dec. prev. year)	1.8	2.3	3.1
	<i>Contribution (pp)</i>		
Food stuffs	0.6	1.2	1.4
Unprocessed foods	0.2	0.2	0.5
Processed foods	0.4	1.0	0.8
Services (all except goods)	0.4	1.8	0.9
Public food services	0.2	0.4	0.3
Transport services	0.1	0.4	0.0
Telecommunications	-0.1	0.1	-0.1
Energy and home heating	0.3	0.8	0.1
Liquid and transport fuels	0.4	0.4	0.3
Industrial goods	0.6	0.7	0.6
Administrative prices	0.4	0.8	0.4

Source: NSI.

In 2019, the growth of housing prices in our country is slowing down, reporting an increase of 6.0% on an average annual basis compared to 6.6%

in 2018. The smaller growth of housing prices is determined by demand from households and the high percentage of vacant / unoccupied housing stock. Although at a much slower pace, the rental price continues to rise, reaching 3.3% on an average annual basis compared to 1.9% in 2018.

Graph 50. Dynamics of housing prices and rents



Source: NSI.

2. Overview of the non-banking financial sector in Bulgaria²⁵

In 2019, the assets of the participants in the non-banking financial sector increased by 7.2% and reached BGN 51 billion at the end of the year, as the assets of all types of non-banking financial companies and segments (except non-banking investment firms) reported a positive change in annual base. The largest contribution of 4.8 percentage points, there is the growth of the assets of the pension funds, followed by the assets of the insurance and reinsurance companies (1.8 percentage points), the increase of the assets managed by the management companies and the persons managing alternative investment funds (0.5 percentage points), the change of the assets of collective investment schemes and national investment funds (0.4 percentage points) and the increase in the assets of special purpose investment companies (0.2 percentage points). The assets of non-bank investment firms, the main part of which are client assets, limit the growth with a negative contribution of -0.6 percentage points. As a result of this dynamics, the role of companies in the non-banking financial sector in the structure of financial intermediation slightly decreases, as the assets of the participants in the supervised sector of the FSC reach 31.0% of the assets of the financial sector in Bulgaria.

As a share of GDP, the assets of the participants in the non-banking financial sector decreased insignificantly and in 2019 amounted to 43.2%. The depth of financial intermediation in the non-banking financial sector measured through market capitalization on the stock exchange decreased to 23.5% at the end of 2019 compared to 24.4% of the GDP at the end of 2018.

The assets of non-bank investment firms (IF) decreased by -1.3% in 2019 and at the end of the year reached BGN 20.7 billion. The reason for the decrease in the value of assets is a decrease in the client assets of non-bank investment firms with a full license, whose contribution to this dynamics is -2.7 percentage points. The assets of the non-banking IFs with a partial license increased by 1.8% on an annual basis and limited the decline in

the assets of the non-banking IFs with a positive contribution of 1.4 percentage points.

The assets of management companies and persons managing alternative investment funds increased in absolute terms by BGN 260.3 million, which is an increase of 13.1% on an annual basis, amounting to BGN 2.3 billion at the end of the year. Of these, BGN 1.7 billion, are the managed assets of collective investment schemes and BGN

²⁵ The analysis is based on preliminary data for 2019.

0.6 billion are managed assets of clients on trust management of portfolios.

Table 36. Relative structure of the assets of non-bank financial sector participants (% of the assets of the banking and non-banking financial sector in Bulgaria)

Indicators	2015	2016	2017	2018	2019
Non-banking investment firms	4.4	4.5	10.8	13.6	12.5
Management companies and AIFMs	1.0	1.3	1.4	1.3	1.4
CIS and NIF*	0.8	1.0	1.0	1.0	1.0
SPICs	1.4	1.3	1.1	1.1	1.1
(Re)insurance companies	5.4	5.2	9.8	5.3	9.8
SPFs	8.4	9.1	9.2	8.8	9.5
Participants in the non-banking financial sector	21.4	1.0	1.0	31.2	31.0

Notes: * By 2017, closed-end investment companies were also included.

Source: BNB, FSC.

The assets of collective investment schemes (CIS) and sovereign wealth funds (SWF) increased by a total of 13.7% compared to the previous year. The observed dynamics is mainly due to an increase in the assets of the mutual funds, which at the end of the year were 127, and the amount of their assets reached BGN 1.7 billion. There are four sovereign wealth funds, which manage BGN 17.9 million of assets. Due to the relatively small absolute value of assets, collective investment schemes account for 1.0% of the structure of financial intermediation.

The assets of special purpose investment companies (SPICs) increased by 5.6% on an annual basis and by the end of the year their amount was BGN 1.8 billion. The largest contribution to this growth was made by the assets of SPICs investing in real estate and agricultural land (5.3 percentage points). SPICs securitizing receivables contribute positively by 0.3 percentage points. in the annual growth of assets in the sector. In relative terms, the share of special investment purpose companies in the structure of financial intermediation at the end of 2019 remained at 1.1%.

The assets of (re) insurers increased to 10.6% in 2019 compared to 8.4% in 2018, and their share

in the structure of financial intermediation increased by 0.2 percentage points. and amounts to 5.5%. The largest contribution of 5.5 percentage points for the growth of the assets of the (re) insurance market lies with the increase of the assets of non-life insurance companies (11.7%), followed by the growth of the assets of the life insurance companies by 16.0%, which also have a positive contribution of 3.2 percentage points. The assets of the only reinsurance company in Bulgaria increased by 5.8% on an annual basis and had a positive contribution of 1.9 percentage points. to the change in market assets.

The growth of the balance sheet assets of pension funds accelerates to 16.9% in 2019 from 5.7% in 2018. The increase in their assets is due to both the proceeds from social security contributions and the positive result of investing the funds accumulated in individual accounts in the year. Pension funds continue to rank second among the institutional investors of the non-banking financial sector after the non-banking investment funds, as the amount of their balance sheet assets at the end of the year amounted to BGN 15.7 billion. Their relative share in the structure of financial intermediation at the end of the year amounted to 9.5%.

Table 37. Market capitalization of the stock exchange and assets of non-banking financial sector participants (% of the GDP)

	2015	2016	2017	2018	2019
Market capitalization of the stock exchange market	9.6	10.2	23.1	24.4	23.5
Non-banking investment firms	9.8	5.6	14.5	19.1	17.4
Management companies and AIFMs	1.3	1.6	1.8	1.8	1.9
CIS and NIF*	1.0	1.2	1.4	1.4	1.4
SPICs	1.7	1.6	1.5	1.6	1.5
(Re)insurance companies	7.5	9.8	7.4	7.5	7.6
SPFs	10.5	11.4	12.5	12.3	13.3
Participants in the non-banking financial sector	26.6	27.9	39.1	43.6	43.2

Notes: * By 2017, closed-end investment companies were also included.

Source: BSE, FSC, NSI.

The depth of financial intermediation in the non-banking financial sector measured through market capitalization on Bulgarian Stock Exchange AD as a share of the GDP decreased to 23.5% at the end of 2019 from 24.4% at the end of 2018.

The market capitalization of the BSE increased by 4.3% on an annual basis and reached BGN 27.9 billion at the end of the year. The market capitalization of the alternative market, which reached BGN 19.0 billion at the end of the year, had a positive contribution of 3.5 percentage points, while the market capitalization of the underlying market, which reached BGN 8.9 billion at the end of 2019, had limited contribution of 0.8 percentage points. The highest contribution to this increase (3.7 percentage points) was made by the segment "Shares on the alternative market", whose market capitalization reached BGN 18.6 billion. in the end of the year. The main share in the segment is occupied by the shares of one public company²⁶, whose market capitalization at the end of the year was 92.6%. The segments "Standard Shares " and "SPIC" of "Main Market" follow, which contribute positively by 0.7 percentage points each. in the total increase in the capitalization of the two markets. The market

capitalization of the Trading segment of Premium Shares decreased from

BGN 1.9 billion at the end of 2018 to BGN 1.8 billion. at the end of 2019 and has a negative contribution of -0.5 percentage points, followed by the segment for special purpose investment companies on the alternative market, which limits the growth with a negative contribution of -0.3 percentage points in the total market capitalization of the stock exchange.

The dynamics of the stock market indices is divergent in 2019, as SOFIX and BGBX40 end the year with a decrease, while BGTR30 and the sector BGREIT end 2019 with an increase. As at 31 December 2019, the main SOFIX index decreased by -4.4% compared to its level at the end of 2018 to 568.14 points. The broad BGBX40 index decreased from -3.5% on an annual basis to 111.83 points, while the weighted BGTR30 increased by 4.1% during the year to 516.28 points. The sector index BGREIT, which in principle makes an exception to the general trend due to the type of companies included in the index, reported an increase of 7.4% on an annual basis to 130.03 points.

Expressed as share of the GDP, the assets of participants in the non-banking sector amounted to

²⁶ The market capitalization of Capital Concept Limited AD as at 31.12.2019 was BGN 17.2 billion.

43.2%, the largest among which was the share of assets of non-banking IFs (17.4%), followed by assets of supplementary pension funds (13.3%) and the share of the assets of the (re)insurance segment, which were 7.6% of the GDP. Assets

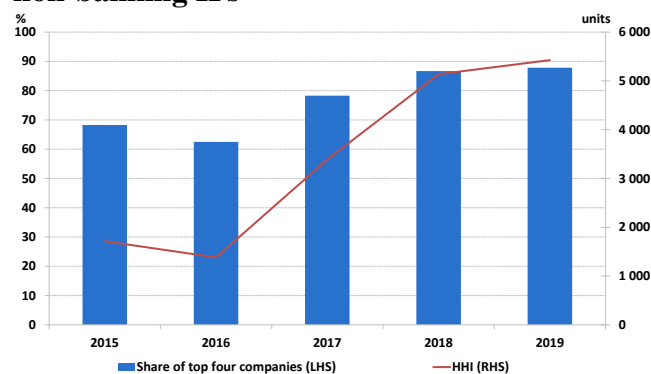
In 2019, the development of the non-banking financial sector maintained the market environment in individual segments. The markets for services offered by special purpose investment companies, collective investment enterprises, management companies and non-life insurance companies were characterized by ongoing strong competition. A moderate competitive environment could be observed with pension insurance companies over the last five years, and the life insurance market and services segment provided by non-banking investment firms were characterized by high market concentration from the end of 2017. The overall development dynamics of the market environment during the year was divergent in the different segments and does not lead to a qualitative change in the market competition.

For non-banking investment firms, the concentration measured on client assets base remains very high. By the end of 2019, the largest four investment firms held 87.8% of the total amount of all client assets,²⁷ the share of the first investment firm being 70.9%. For the other investment firms, the average share of the client assets held was 0.4%.

The Herfindahl-Hirschman Index (HHI)²⁸ on the market of non-bank investment firms, calculated by client assets, increased in 2019 to 5,425 units, which is 288 units more than the previous year. As a result of this dynamics, the market for services provided by non-bank investment firms is characterized as highly concentrated.

managed by MCs and AIFMs amounted to 1.9% of the GDP, and those of the SPICs, CISs and SWFs – to 1.5% and 1.4% of the GDP, respectively.

Graph 51. Concentration on the market of non-banking IFs



Source: FSC.

The market concentration of the services offered by the management companies in 2019 is increasing compared to the previous year. The four management companies with the largest relative share in the managed assets hold 43.3% of the total amount²⁹. The value of the Herfindahl-Hirschman Index (HHI) on the market of management companies, calculated on the basis of managed assets at the end of 2019, increased by 25 units to the level of 701 units in the direction of

²⁷ IF Intercapital Markets AD, IF Elana Trading AD, IF First Financial Brokerage House EOOD and IF Sofia International Securities AD.

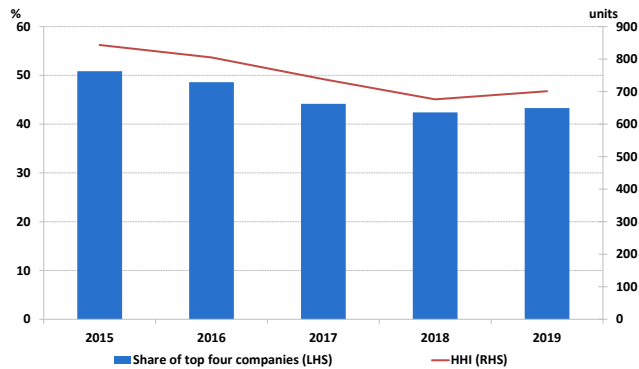
²⁸The Herfindahl-Hirschman Index (HHI) is calculated as the sum of the squares of the market share of each market participant, with its value varying between 0 and 10,000. For a value of less than 1000 units, the market is defined as

highly competitive, between 1000 and 1800 units – as moderately competitive environment, and more than 1800 units – the market is characterized by strong concentration.

²⁹These are UBB Asset Management AD, DV Asset Management EAD, Raiffeisen Asset Management EAD and DSK Asset Management AD.

increasing concentration in the sector. Despite this dynamics, the market segment continues to be characterized as highly competitive.

Graph 52. Concentration on the market of MCs

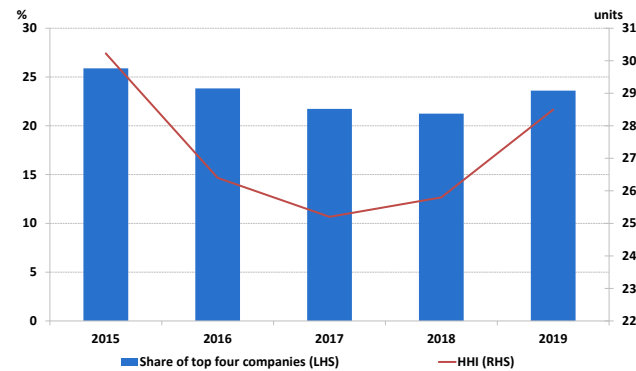


Source: FSC.

The market for collective investment schemes and national investment funds is defined as highly competitive. The trend of gradual decrease of the concentration in the segment has stopped, as in 2019 an increase is observed both in relation to the Herfindahl-Hirschman index (HHI) and in the share of the first four funds in the total assets, despite this dynamics the market in this segment remains highly competitive. The change in the Herfindahl-Hirschman Index (HHI) is 27 units, increasing to 285 units at the end of 2019 compared to 258 units in 2018, while the share of the first four funds³⁰ increases respectively to 23.6% from 21.3%.

³⁰MF UBB Platinum Bonds, MF Raiffeisen Conservative Fund (Bulgaria), MF DSK Standard and MF Prime Assets.

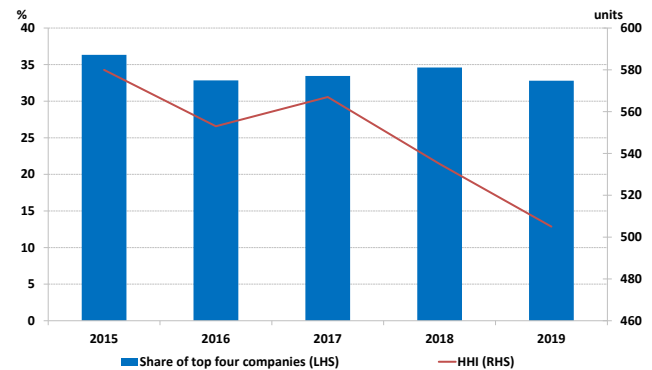
Graph 53. Concentration on the market of CISs and NIFs



Source: FSC.

The segment of special purpose investment companies remained highly competitive at a Herfindahl-Hirschman index (HHI) of 505 units, which was 30 below the value of the 2018 indicator. Similar dynamics was observed in the change in the share of the first four companies, which decreased to 32.8% in 2019³¹ from 34.6% in the previous year, the value of the indicator remained within a strong competitive environment.

Graph 54. Concentration on the market of SPICs



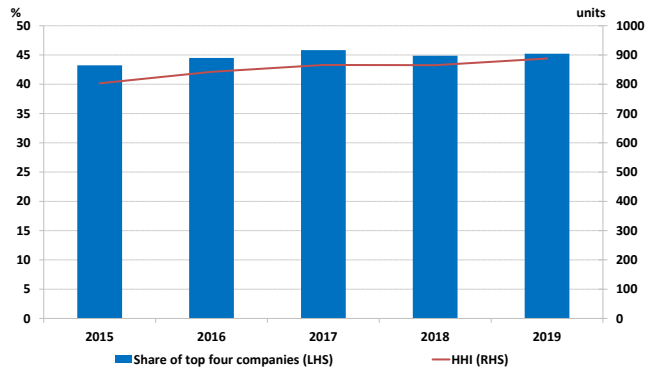
Source: FSC.

The market of non-life insurance was determined as highly competitive, with the HHI index value rising by 16 units compared to the previous year and by the end of December 2019 reaching 888 units, which was its highest value since mid-2016, in the direction of increasing

³¹SPIC Advance Terrafund, SPIC Capital Management, SPIC Real Estate Bulgaria Fund, and SPIC Balkan and Sea Properties.

concentration. The market share of top four non-life insurance companies, measured in terms of assets,³² insignificantly grew to 45.2% at the end of 2019 from 44.9% at the end of 2018.

Graph 55. Concentration on the non-life insurance market



Source: FSC.

In 2019, the market of life insurance services is characterized by a highly concentrated competitive environment. At the end of 2019, the curve of the Herfindahl-Hirschman index (HHI) marked 2,076 units, which is 5 units compared to the previous year in the direction of reducing concentration in the sector. After the historical growth of the total market share of the four life insurance companies with the largest amount of assets³³ at the end of 2018 as a result of transformation through merger of one insurance company into another, the indicator decreased for the first time in the previous 5 years and at the end of the fourth quarter of 2019 reached a level of 81.8%.

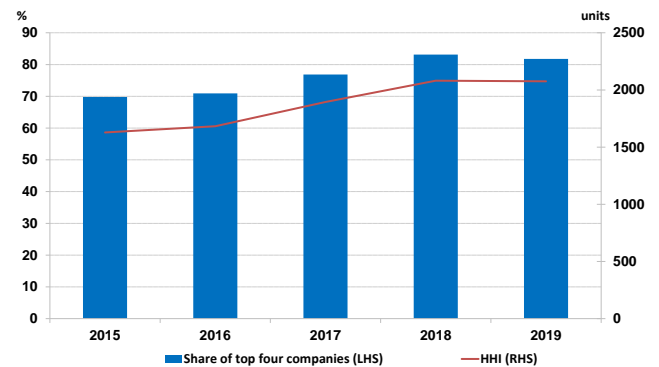
2.1. Review of risks and main market trends

Global economic activity is slowing in 2019. as a result of deteriorating international trade and growing geopolitical risks, the most important of which are the uncertainty in the Middle East related to US sanctions

³²These were Insurance Company Lev Ins AD, Bulstrad Vienna Insurance Group AD Insurance Company, and DZI - Non-life Insurance EAD and Insurance Company Euroins AD.

³³ These were Insurance Joint-Stock Company Allianz Bulgaria-Life AD, DZI-Life Insurance EAD, Grave

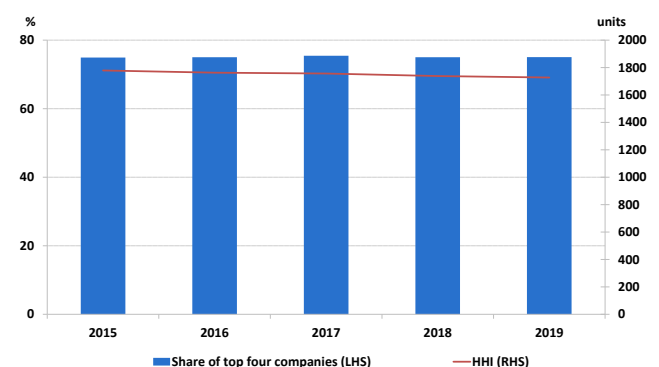
Graph 56. Concentration on the life insurance market



Source: FSC.

By the end of 2019, the share of the first four companies³⁴ on the market of pension insurance services according to their balance sheet assets remains unchanged at the level of 75.0% compared to the previous year. The Herfindahl-Hirschman Index (HHI) continues its downward trend and decreased to 1,727 units, thus maintaining the level of moderate concentration over the last five years.

Graph 57. Concentration of the social insurance market



Source: FSC.

Bulgaria Life Insurance EAD and Insurance Joint-Stock Company Bulstrad Vienna Insurance Group AD.

³⁴PIC Doverie AD, PIC Allianz Bulgaria AD, PIC DSK – Rodina AD and PIC Saglasie AD.

against Iran, the protests in Hong Kong and political fragmentation in the EU. Declining global economic activity and weaker external demand are having a negative impact on the economies in the eurozone and the EU as a whole, and an additional factor is the uncertainty stemming from Britain's exit from the EU and future trade and financial relations between the Community and the United Kingdom. In response to slowing global economic growth *in the second half of 2019, the leading central banks undertook changes in their monetary policies aimed at stimulating the economies.*

The development of international capital markets in 2019 is characterized by upward dynamics, which in the first half of the year is supported by the expectations of market participants to take stimulus measures by the monetary authorities, and at the end of 2019 optimism plays a positive role. to reach a partial trade agreement between the United States and China. In the conditions of low interest rates the prospects for increasing the profitability in the financial sector are limited, as the construction of buffers is of great importance for effective coping during an economic downturn without negative consequences for the real economy.

The real growth of the Bulgarian economy is accelerating from 3.1% in 2018 to 3.4% in 2019, which is due to both stable domestic demand and a contraction of the negative net foreign trade balance. The current account surplus expanded to EUR 5,901.1 million during the year, or 9.7% of GDP. The volume of foreign direct investment in Bulgaria amounts to EUR 1,092.4 million, which is only EUR 64.5 million more than their volume in the previous year. The country's gross external debt increased by 0.8% and amounted to EUR 34.1 billion at the end of the year. Lending activity intensified during the year, with lending to households growing at a faster pace. In 2019, the budget balance is in deficit of BGN 1.1 billion, which amounts to -1.0% of GDP. Consumer price inflation remains at the level of 2018, accelerating to 3.1% on an annual basis at the end of the year. The housing price index slows down its positive rate of change on an annual basis to 6.0% on average in 2019 compared to 6.6% in 2018.

As a result of sustainable economic development without the accumulation of macroeconomic imbalances the international rating agency S&P Global Ratings raised Bulgaria's credit rating to 'BBB' with a positive outlook.

In search of higher returns, *institutional investors maintain an interest in alternative investments*, as the sum of the assets of the collective investment schemes and the national investment ones increased by 13.7% on an annual basis and reached BGN 1.7 billion by the end of 2019. The dynamics of the market indices of the Bulgarian Stock Exchange is diverse as SOFIX and BGBX40 end the year with a decrease, while BGTR30 and BGREIT end the year with an increase. At the end of the period the leading index SOFIX decreased from -4.4% to 568.14 points, the broad BGBX40 decreased by -3.5% to 111.83 points, while the weighted BGTR30 ended the year with an increase of 4.1% to 516.28 points. The sectoral BGREIT, which recorded an annual growth of 7.4%, ended the year at 130.03 points. This dynamics of the indices is due to *weakened investor interest* in all segments of the stock market, which leads to a decrease in turnover of -39.4% or BGN -216.5 million in absolute value. In the sectoral structure of trade, the Financial and Insurance Activities sector, which traditionally forms the majority of the turnover on the BSE, accounts for 48.2% of the total turnover on the main market during the year. The market capitalization of the stock exchange increased by 4.3% on an annual basis, the contribution of the alternative market was 3.5 percentage points, while the contribution of the main market was 0.8 percentage points. Taking advantage of the still low interest rates in our country as well, corporate debt with a nominal value of BGN 171.4 million was issued on the stock exchange during the year.

Bond yields and persistently low interest rates are major risks for insurers, putting pressure on both equity positions and long-term profitability. Large declines in interest rates can also create additional incentives for insurers to seek profitability, which can contribute to the accumulation of vulnerabilities in the financial sector. ***In conditions of low interest rates*** Insurers' investments increased by 14.8% in 2019. They maintained their investment interest in debt securities, as their share of the total value of investments in non-life insurance companies increased to 63.3%, and in life insurers - to 73.0%. In search of higher returns, non-life insurance companies and life insurers are expanding their exposures to shares and other variable-income securities, with their share in the investment portfolio increasing to 16.4% for non-life insurance and to 11.9% for life insurers at the end of 2019. The trend of recent years to reduce exposures in bank deposits, which reported a decline to historically low levels and reached a share of 3.7% of investments of non-life insurance companies and 1.3% of life insurers. Investments in land and buildings of non-life insurance companies are also declining, while those of life insurers remain at the same level.

Although the insurance sector is adapting to the environment with persistently low interest rates, the life insurance segment is most vulnerable when it offers insurance products with a guaranteed return significantly higher than the realized investment income in the long run. Investments in favor of Unit-linked life insurance policies, where the investment risk under this type of insurance is borne by the insured persons, continue to grow, reporting a change of 5.7% in the fourth quarter of 2019 and reaching 17.5 % of the value of all assets of life insurers compared to 13.5% at the end of 2018.

The risk of insurers' profitability remains moderate with an increasing trend, as in the fourth quarter of 2019 the return on assets and capital of non-life insurance companies increased, while that of life insurance companies decreased. The return on their investment is declining. The coverage of the Solvency Capital Requirement remains relatively high for life insurance companies (258.9%), although it is decreasing, while for non-life insurance companies the indicator is at a relatively lower level, increasing from 159.4% to 163.2%.

The main objective of pension fund asset management was to increase the long-term value of their assets by achieving return on their investment. The supplementary pension funds are mainly exposed to the ***risks of the financial markets*** in which their assets are invested. As long-term investors, pension funds invested mainly in debt securities, among which dominated the investments in government securities, the relative share of which continues to grow and reached 61.3% in the end of 2019. The share of investments in bonds other than government securities remained at the level of 11% of the total investment portfolio. Due to the riskier nature, the value of pension funds' investments in shares, rights and units decreased to 24.9% of the total value of their investments. In an environment with continuous low interest rates, investments in bank deposits held a historically low share of 1.0% of all investments at the end of the year. Due to the higher return achieved in foreign markets, as well as the variety of financial instruments, the share of pension fund investments in financial instruments issued by issuers outside the Republic of Bulgaria grew to 67.1% of their investment portfolio at the end of 2019, compared to 61.5% in the end of 2018. After the reported decline of the returns of SPFs in 2018, in 2019 it is once again positive.

2.2. Analysis of the participants on the capital market³⁵

The market capitalization of the Bulgarian Stock Exchange AD increased by 4.3% in 2019 and amounted to BGN 27.9 billion at the end of the year, which represents 23.5% of GDP (compared to 24.1% in

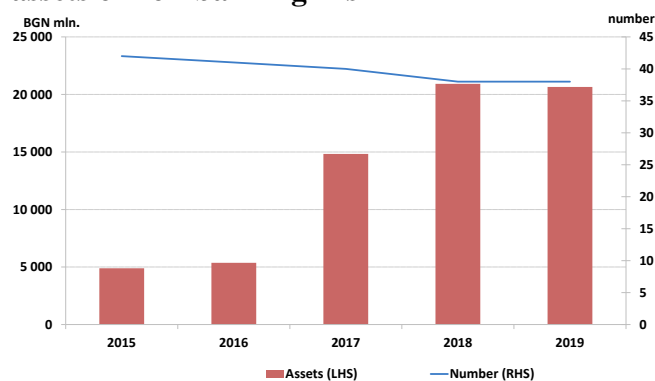
2018). Financial and insurance activities took first place in terms of turnover during the year with BGN 111 million. The assets of non-bank investment firms based in the Republic of Bulgaria reported a decrease of -1.3% on an annual basis and at the end of 2019 amounted to BGN 20.7 billion. In 2019, the assets of special purpose investment companies increased by 5.6% on an annual basis and reached BGN 1.8 billion. The assets of collective investment schemes and sovereign wealth funds increased by 13.7% compared to the previous year and at the end of 2019 amounted to BGN 1.7 billion. The total assets managed by the management companies increased by 13.1% and reached BGN 2.3 billion.

2.2.1. Investment firms ³⁶

In 2019, the number of investment firms (IFs) operating on the territory of the Republic of Bulgaria is 63, 21 of which are banks and 3 bank investment firms operating on the territory of the country through a branch. The number of non-bank investment firms based in the Republic of Bulgaria is 38³⁷, and the number of non-bank investment firms operating on the territory of the country through a branch is 4 at the end of 2019.

Depending on the authorizations issued, non-banking IFs were divided into three groups: (1) IFs with a full license³⁸, for which the required capital was BGN 1,500,000, (2) IFs with a partial license³⁹, for which the required capital was BGN 250,000, and (3) IFs with a small license,⁴⁰ for which the required capital was BGN 100,000. By the end of 2019, 17 IFs with a full license, 20 companies with a partial license and 1 company with a small license were entered in the FSC's register. In 2019, the license of one branch of a foreign investment firm was revoked.

Graph 58. Dynamics in the number and assets of non-banking IFs



The amount of the assets⁴¹ of non-banking investment firms at the end of 2019 was BGN 20.7 billion, which represented a -1.3% decrease compared to the end of 2018. Of these, client assets amounted to BGN 20.4 billion. The positive contribution to the annual rate of change in the total assets of 2.5 percentage points was due to non-banking investment firms with partial licenses, and those with full licenses had a growth-limiting negative contribution of -3.7 percentage points. The reason for this dynamics was the decrease by BGN -287.9 million of the client assets of the IFs with a partial license. In 2019, the number of non-

³⁵ The analysis is based on preliminary data for 2019.

³⁶ The analysis covers non-banking investment firms based in the Republic of Bulgaria, unless explicitly stated otherwise.

³⁷ The number of non-bank investment firms did not include companies whose license had been revoked as at 31.12.2018.

³⁸ They may carry out all the investment services and activities listed in Art. 6, para. 2 of the Markets in Financial Instruments Act (MFIA).

³⁹ They may not carry out transactions at their own expense with financial instruments and underwriting financial

instruments and/or offering for initial sale of financial instruments under an unconditional and irrevocable obligation to subscribe/acquire financial instruments at their own expense.

⁴⁰ They may carry out services and activities under Art. 6, para. 2, item 1 and / or item 5 of the MFIA, namely: acceptance and forwarding of orders in relation to one or more financial instruments including brokerage for the conclusion of transactions in financial instruments as well as providing investment advice to a client.

⁴¹ The amount of the total assets included the amount of the contingent assets.

banking investment firms with direct foreign participation from the EU remained 4 without changing compared to the end of 2018. There was no indirect foreign investment of EU investment firms. In terms of indirect participation from third countries, the number of IFs remained unchanged – one IF with indirect foreign participation from third countries.

Table 38. Number of IFs with foreign ownership

	2017		2018	
	Direct	Indirect	Direct	Indirect
EU ownership	4	0	4	0
Third countries' ownership	0	1	0	1

Източник: КФН.

The amount of the assets of the only non-bank investment firm with a small license increased by BGN 267.5 thousand at the end of 2018 up to BGN 302.8 thousand at the end of 2019, which is an increase of 13.2% on an annual basis. The amount of assets of non-bank investment firms with a partial license increased by 3.2% on an annual basis - from BGN 16.2 billion as of the end of 2018 to BGN 16.7 billion as at the end of 2019, while the assets of non-bank investment firms with a full license decreased by -3.7% during the year to BGN 3.9 billion, compared to BGN 4.8 billion at the end of 2018.

Table 39. Assets, capital stock and equity of non-banking IFs

	2015	2016	2017	2018	2019
IFs with a small licence					
assets	0.3	0.2	0.3	0.3	0.3
capital stock	0.5	0.5	0.5	0.3	0.1
equity	0.3	0.2	0.2	0.3	0.3
IFs with a partial licence					
assets	782.3	915.0	9 341.2	16 169.2	16 682.9
capital stock	9.7	9.6	9.3	14.8	18.6
equity	14.7	16.5	17.7	23.6	28.2
IFs with a full licence					
assets	4 111.1	4 452.7	5 493.6	4 750.4	3 967.9
capital stock	55.0	59.2	65.8	62.4	56.8
equity	93.0	105.2	111.2	144.7	143.2
Total IFs					
assets	4 893.8	5 367.9	14 835.0	20 919.8	20 651.1
capital stock	65.2	69.3	75.5	77.4	75.4
equity	108.0	121.9	129.1	168.5	171.7

Note: Data are in million BGN, unless stated otherwise.

Source: FSC.

The capital stock of non-banking investment firms decreased by -2.6% on an annual basis to BGN 75.4 million by the end of 2019. The equity of the investment firms increased by 1.9% on an annual basis to BGN 171.7 million as at the end of 2019. The positive financial result achieved by the investment firms during the year amounting to BGN 24.1 million was the main factor contributing to the annual rate of change in equity.

The market value of the trading and investment portfolio of non-banking investment firms at the end of 2019 was BGN 59.0 million. Trading portfolio was formed by 13 non-banking investment firms with a market value of BGN 36.5 million at the end of the year. Non-banking investment firms that formed an investment portfolio were 26 at the end of 2019 with a market value of BGN 22.5 million.

16 non-banking investment firms carried out activities on a trust basis at the end of 2019. The market value of the securities provided for management on a trust basis was BGN 68.1 million, and the cash at the end of the period was BGN 4.1 million.

The number of transactions concluded by investment firms in 2019 decreased by -18.7% on an annual basis to 44.2 thousand transactions, and the traded lots decreased by -35.8% on an annual basis to 181.0 million lots. The trade activity of the stock exchange members on the BSE regulated market, measured by turnover, decreased by -39.4% on an annual basis to BGN 333.6 million in 2019. The first four investment firms by trading activity have a share of 40.4% of the total turnover realized on the BSE regulated market during the year.

Table 40. Number of transactions, turnover and volume (lots) of IFs (banking and non-banking) on BSE's regulated market

	2015	2016	2017	2018	2019
Number of transactions	60 047	58 442	79 629	54 341	44 167
Turnover (BGN mln.)	411	416	706	550	334
Volume (mln. lots)	218	186	401	282	181

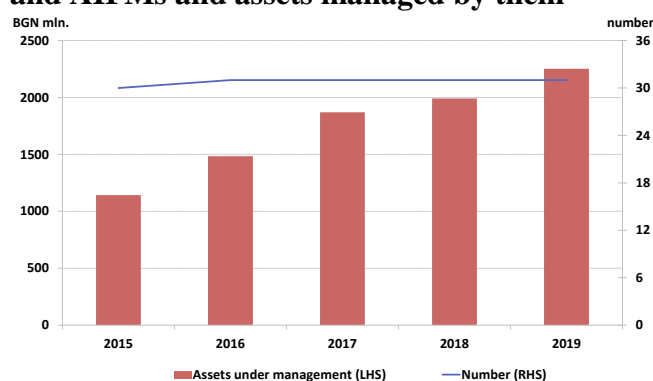
Source: BSE, FSC.

2.2.2. Collective investment undertakings

As of the end of 2019, the number of management companies (MCs) is 31, of which 3 are also alternative investment fund managers (AIFM) and 1 branch of a MC. The total number of registered AIFMs (which are not MCs) is 8 and 7 of them have permits for operation and entered in the register of the FSC in 2019. One open-ended SWF is entered and the issues of shares issued are written off of five mutual funds (MF), bringing the total number of CIS and AIF, including SWF, to 138 at the end of the year.

The amount of assets managed by management companies increased in absolute terms by BGN 260.3 million and by the end of the year it reached BGN 2.3 billion, which was 13.1% annual growth. Of them, BGN 550.5 million are the managed assets of clients in trust portfolio management and BGN 1,701.3 million managed assets of collective investment schemes.

Graph 59. Dynamics in the number of MCs and AIFMs and assets managed by them



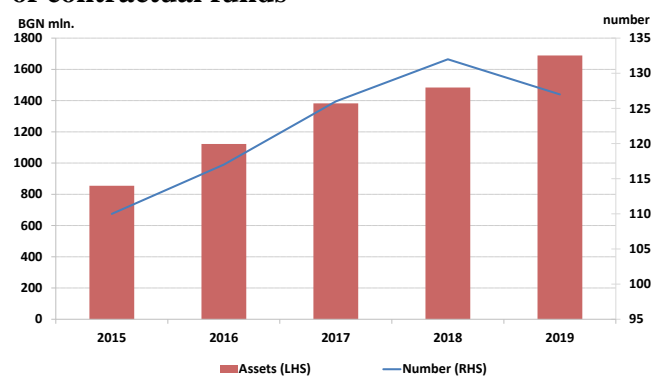
Source: FSC.

At the end of 2019, there were four sovereign wealth funds (SWFs), including 1 national mutual fund, managed by an AIFM, one national investment company which is a self-managed AIF,

one national investment company managed by an AIFM, and one open-ended sovereign wealth fund, whose assets amounted to BGN 17.5 million compared to BGN 11.7 million for the previous year.

In 2019, the assets accumulated by the CISs increased, while their number decreased. As at December 2019, there are 127 CISs, whose total balance sheet assets reach BGN 1.7 billion. (of which net assets are BGN 1.7 billion), or the increase in balance sheet assets is 13.8% compared to the previous year.

Graph 60. Dynamics in the number and assets of contractual funds



Source: FSC.

In 2019, the number of contractual funds of foreign collective investment schemes increased by 2 and at the end of 2019 they were 46.

Table 41. Dynamics of the number of foreign CISs

	2015	2016	2017	2018	2019
Mutual funds - foreign CISs	30	27	26	44	46

Source: FSC.

The total assets accumulated by CISs and NIFs in 2019 grew by 13.7% compared to the previous year, reaching BGN 1.7 billion at the end of the year. The balance sheet item Financial Assets and Instruments sped up its growth from 13.8 % in 2018 to 30.3% in 2019, reaching BGN 1.5 billion with a positive contribution of 23.0 percentage points to the annual rate of change in assets. The items with the largest positive contribution to the annual rate of change are Debt securities (14.6 percentage points), which reached BGN 590.1

million, followed by Shares (6.9 percentage points), increasing to BGN 714.4 million, CIS shares (0.9 percentage points) amounting to BGN 159.5 million. and Other financial instruments (0.5 percentage points) with a book value of BGN 17.3 million. The balance sheet item Cash decreased to BGN 210.8 million for the year and has -9.2 percentage points negative contribution to the annual rate of change in assets.

Table 42. Dynamics of the CISs' and NIFs' assets

	2015	2016	2017	2018	2019
Cash	286.1	366.7	376.2	348.3	210.8
Term deposits	172.3	159.7	167.6	151.2	97.0
Financial assets and instruments, incl.:	551.3	760.7	998.8	1 137.1	1481.8
Shares	257.3	375.2	536.6	611.2	714.4
Rights	0.0	7.9	0.0	0.0	0.0
Debt securities	207.0	251.9	307.7	371.0	590.1
Shares of CIS	76.7	110.4	132.8	145.3	159.5
Money Market Instruments	1.1	0.9	3.5	0.0	0.0
Derivatives	0.0	0.9	1.0	0.3	0.5
Other financial instruments	9.3	13.5	8.2	9.2	17.3
Non-financial assets (receivables)	16.7	13.8	12.7	7.4	6.3
Other	9.8	1.3	6.5	9.0	8.2
TOTAL	863.9	1 142.5	1 394.2	1 501.8	1 707.1

Note: Data are in million BGN, unless stated otherwise.
Source: FSC.

In 2019, the relative share of the Cash balance sheet item in the total structure of assets continued to decline from 23.2% in 2018 to 12.3% at the end of the year. There was an increase in the share of the Financial assets and instruments balance sheet item, which increased from 75.7% to 86.8%. The main contribution to this dynamics is made by the Debt securities item; whose share reaches 34.6% by the end of 2019. The Non-financial assets item, a large part of which are receivables, decreases in absolute terms (BGN -1.1 million.) and as a relative share from 0.5% to 0.4% at the end of the year. Other items, which mainly represent expenses incurred for future periods, have a share of 0.5% in the total asset structure of CIS and SWF.

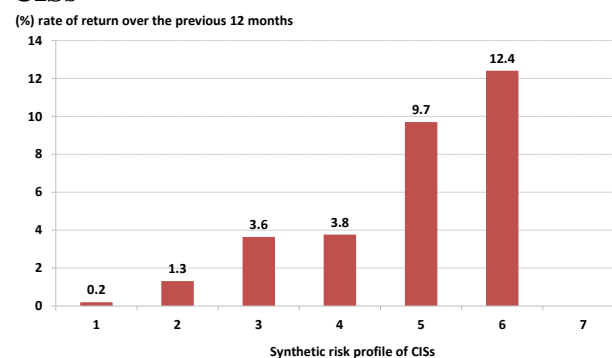
Table 43. Relative structure of CISs' and NIFs' assets

	2015	2016	2017	2018	2019
Cash	33.1	32.1	27.0	23.2	12.3
Term deposits	19.9	14.0	12.0	10.1	5.7
Financial assets and instruments, incl.:	63.8	66.6	71.6	75.7	86.8
Shares	29.8	32.8	38.5	40.7	41.8
Rights	0.0	0.7	0.0	0.0	0.0
Debt securities	24.0	22.0	22.1	24.7	34.6
Shares of CIS	8.9	9.7	9.5	9.7	9.3
Money Market Instruments	0.1	0.1	0.2	0.0	0.0
Derivatives	0.0	0.1	0.1	0.0	0.0
Other financial instruments	1.1	1.2	0.6	0.6	1.0
Non-financial assets (receivables)	1.9	1.2	0.9	0.5	0.4
Other	1.1	0.1	0.5	0.6	0.5
TOTAL	100.0	100.0	100.0	100.0	100.0

Note: Data are in percentages (%), unless stated otherwise.
Source: FSC.

In 2019, collective investment schemes, which against the background of continuing low interest rates and in search of higher returns by investors, continue to be the preferred alternative for investment. For the last 12 months the weighted average return of all groups of risk profiles is positive. At the end of the year, the highest weighted average return for the previous 12 months was realized by the high-risk profile funds (12.4%), classified in category 6 (scale from 1 to 7)⁴². Mutual funds with risk profiles of categories 3 and 4 report 3.6% and 3.8% returns, respectively, for the last 12 months. The yield realized by CISs with risk profiles 1 (whose investments are mainly in deposits and bonds) and 2 is positive, which is 0.2% and 1.3% respectively for the last twelve months.

Graph 61. Weighted average rate of return of CISs



.Source: FSC

⁴² According to Regulation 583/2010 / EU, the scale (1 to 7) is a synthetic code for the risk profile of CISs, with the degree of risk increasing in ascending order. The return is weighted

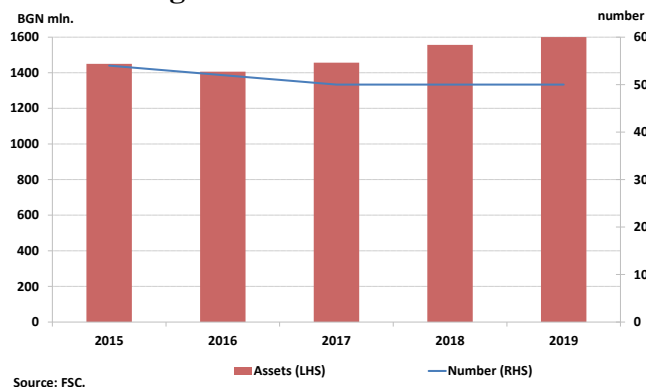
by the value of the net assets of the individual CIUs with the same risk profile.

2.2.3. Special Purpose Investment Companies

At the end of 2019, the total number of licensed Special Purpose Investment Companies (SPICs) was 59⁴³, out of which 50 which carried out securitization of real estates and agricultural land, and the remaining 7 securitized receivables. The total value of the assets of all SPICs increased by 5.6% compared to the previous year 2018. The sum of the assets of these companies at the end of 2019 amounted to BGN 1.8 billion, or 1.5% of the GDP. The contribution of the two categories of SPICs in the total growth of assets is positive, as for the securitizers in real estate it is 5.3 percentage points, and that of the SPICs for securitization receivables is 0.3 percentage points.

The amount of assets of SPICs securitizing real estate and agricultural land increased by 5.8% in 2019 and by the end of the year reached BGN 1.6 billion. At the same time, the number of companies in the segment remained at 50 SPICs compared to the previous year.

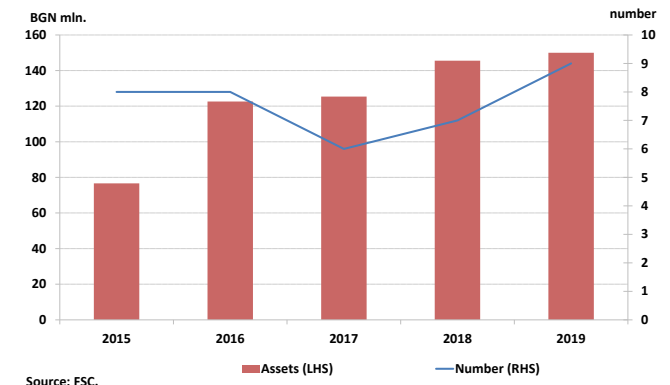
Graph 62. Dynamics in the number and assets of SPICs, performing securitization of real estate and agricultural land



In 2019, the amount of accumulated assets of SPICs securitizing receivables increased by 3.1% compared to 2018 and by the end of the year reached BGN 150.0 million. The number of

companies in the segment increased by two during the year to 9 SPICs.

Graph 63. Dynamics in the number and assets of SPICs, performing securitization of receivables



The assets of SPICs securitizing real estate and agricultural land increased by 5.8% on an annual basis and reached BGN 1.6 billion at the end of 2019. In the structure of the balance sheet assets the Investment properties main item increased by 9.8% on an annual basis, reaching BGN 1.2 billion and has the highest positive contribution of 7.0 percentage points in the total annual growth of the assets of this type of companies (5.8%). The Financial assets balance sheet item, which at the end of the year reached BGN 7.6 million, has a relatively small contribution of 0.3 percentage points in asset growth. It is followed by the Others item, which increased by 39.9% during the year and reached BGN 146.8 million, contributing positively by 2.7 percentage points. The Receivables item has a growth-limiting negative contribution of -3.8 percentage points, decreasing from up to BGN 191.4 million at the end of 2019, while cash on the assets balance fell to BGN 74.3 million, which limits the growth by -0.4 percentage points.

⁴³ The number of SPICs presented did not include companies the license of which had been revoked as at 31.12.2019.

Table 44. Assets of SPICs performing securitization of real estates and agricultural land

	2015	2016	2017	2018	2019
Investment properties	936.1	1 021.1	1 099.6	1 117.9	1227.6
Financial assets	0.1	0.2	2.5	2.4	7.6
Cash	41.2	53.5	51.6	80.6	74.3
Receivables	183.4	182.6	155.4	251.0	191.4
Other	289.2	149.0	147.6	104.9	146.8
TOTAL	1 450.0	1 406.4	1 456.7	1 556.8	1647.6

Note: Data are in million BGN, unless stated otherwise.
Source: FSC.

In 2019, the relative structure of the assets of SPICs securitizing real estate and agricultural land remained relatively stable compared to the previous reporting period. The relative share of investment properties increased from 71.8% at the end of 2018 to 74.5% at the end of 2019. A similar trend is observed in the share of Other and Financial assets balance sheet items, which increased to 8.9% and 0.5, respectively. % of the total asset structure. The highest decrease was observed in the relative share of receivables in the relative structure of assets, which decreased to 11.6% compared to 16.1% at the end of the previous year.

Table 45. Relative structure of the assets of SPICs, performing securitization of real estates and agricultural land

	2015	2016	2017	2018	2019
Investment properties	64.5	72.6	75.5	71.8	74.5
Financial assets	0.0	0.0	0.2	0.2	0.5
Cash	2.8	3.8	3.5	5.2	4.5
Receivables	12.7	13.0	10.7	16.1	11.6
Other	19.9	10.6	10.1	6.7	8.9
TOTAL	100.0	100.0	100.0	100.0	100.0

Note: Data are in percentages (%), unless stated otherwise.
Source: FSC.

The assets of SPICs performing securitization of receivables increased by 3.1% in 2019, reaching BGN 150.0 million at the end of the period. Growth was marked by the Receivables (up to 1 year) main item, which in 2019 increased by BGN 11.6 million, reaching BGN 117.9 million at the end of the year, compared to BGN 106.2 million at the end of the previous year. The opposite dynamics was observed in the Receivables (over 1 year) item, which during the period decreased by BGN -8.0 million or by -24.9% and had a negative

contribution of -5.5 percentage points for the annual growth of the companies' assets. from the segment.

Table 46. Assets of SPICs performing securitization of receivables

	2015	2016	2017	2018	2019
Financial assets	6.3	6.2	6.2	6.2	6.2
Cash	1.7	4.2	1.4	1.1	1.9
Receivables (up to 1 year)	5.1	77.5	108.9	106.2	117.9
Receivables (above 1 year)	46.8	34.6	8.9	31.9	24.0
Other	16.7	0.1	0.0	0.0	0.0
TOTAL	76.7	122.6	125.4	145.5	150.0

Note: Data are in million BGN, unless stated otherwise.
Source: FSC.

In relative terms, in the structure of assets of SPICs securitizing receivables, with the highest relative share of 78.6% remains the Receivables (up to 1 year) item, followed by Receivables (over 1 year) item, whose relative share in the period decreased from 21.9% to 16.0%.

Table 47. Relative structure of the assets of SPICs performing securitization of receivables

	2015	2016	2017	2018	2019
Financial assets	8.2	5.0	5.0	4.3	4.2
Cash	2.2	3.4	1.1	0.8	1.3
Receivables (up to 1 year)	6.7	63.2	86.8	73.0	78.6
Receivables (above 1 year)	61.1	28.3	7.1	21.9	16.0
Other	21.8	0.1	0.0	0.0	0.0
TOTAL	100.0	100.0	100.0	100.0	100.0

Note: Data are in percentages (%), unless stated otherwise.
Source: FSC.

The registered capital of SPICs increased by 9.5% on an annual basis to BGN 531.2 million. as of the end of 2019. Determinants for the overall dynamics are SPICs, performing securitization of real estate and agricultural land, which dominate the segment. The registered capital increased by 9.5% on an annual basis and contributed 9.3 percentage points. for overall growth. In SPICs securitizing receivables, although the registered capital increased by 9.7%, the contribution was limited to a positive of 0.2 percentage points. The equity of SPICs slowed down its growth from 13.9% in the previous year to 8.4% and reached BGN 1,174.0 million at the end of 2019. SPICs securitizing real estate and agricultural land have positive contribution of 6.3 percentage points, while SPICs securitizing receivables have a

positive contribution of 2.1 percentage points in the growth of equity.

Table 48. SPICs' registered capital and equity

	Registered capital		Equity	
	2018	2019	2018	2019
SIPC securitizing real estate, incl. agricultural land	474.5	519.6	1 026.8	1 094.8
SIPC securitizing receivables	10.6	11.6	55.7	79.2
TOTAL for SPICs	485.1	531.2	1 082.6	1 174.0
<i>change (%)</i>	<i>-0.7</i>	<i>9.5</i>	<i>13.9</i>	<i>8.4</i>

Note: Data are in million BGN, unless stated otherwise.
Source: FSC.

From the point of view of residency of the shareholders of SPICs, the share of Bulgarian residents remains with the highest relative share, reaching 94.8% at the end of the year, calculated on the basis of the nominal value of the shares. The relative share of the Shareholding and Holding Companies sector decreased by 5.9 percentage points, remaining the biggest investor in SPICs by the end of 2019 with a share of 47.3%. Bulgarian households own 20.8% of the share capital of all SPICs, followed by pension funds, whose share increased by 6.8 percentage points. during the year to 16.0%. Banking institutions and financial intermediaries hold 5.0% and 4.9% of the nominal value of the share capital of SPICs, respectively.

EU legal and natural persons holding shares in SPICs are reducing their relative shares and by the end of 2019 they own a total of 1.3% of SPICs compared to a total of 2.0% in 2018.

The shares of SPIC shares held by individuals and legal entities from third countries decreased from 3.1% at the end of 2018 to 1.3% in 2019.

There is also a decline in the relative share of US investors in the share capital of Bulgarian SPICs, which decreased from 3.2% in the previous year to 2.5% at the end of 2019.

Table 49. Shareholders structure of SPICs

	2018	2019
Households	19.72	20.77
Banks	1.71	4.97
Public sector	0.14	0.08
Insurance companies (IC)	0.84	0.85
Pension funds (PF)	9.20	15.97
Financial intermediaries except for IC and PF	6.95	4.92
Shareholding and holding companies	53.21	47.28
Bulgaria	91.77	94.84
Households from the EU	0.43	0.45
Legal entities from the EU	1.54	0.88
EU	1.97	1.33
Households from third countries	0.75	0.13
Legal entities from third countries	2.32	1.18
Third countries	3.07	1.31
Households from the USA	0.08	0.05
Legal entities from the USA	3.12	2.47
USA	3.20	2.52
TOTAL	100.0	100.0

Note: Data are in percentages (%), unless stated otherwise. The relative share of the shareholder groups is calculated on the basis of the nominal value of the shares.
Source: CD, FSC.

2.2.4. Public companies and bond issuers

The number of public companies and issuers at the end of 2019 was 249, as public companies increased net by one company, and issuers increased net by 4 during the year.

The examined prospectuses for initial public offering in 2019 are 20, of which 8 were of SPICs and 12 of public companies other than SPICs. The total value of the approved issues is BGN 306.0 million. (of which the actual amount collected is BGN 270.1 million), which is a decrease of -14.6% on an annual basis. The prospectuses for admission to trading on a regulated market confirmed in 2019 are 13, of which 3 issues of shares of public companies and 10 issues of bonds, with an issue value of the confirmed issues of BGN 196.6 million. The value of the confirmed issues of shares is BGN 25.0 million, and the value of the confirmed issues of bonds is BGN 171.6 million.

The considered tender offers with a decision not to issue a final ban on publication in 2019 increase by 2 compared to the previous year. There is a continuing decline in their turnover of -74.1%.

In 2019, a total of 9 tender offers without a final ban were considered with a total value of BGN 4.5 million. (of which the shares acquired as a result of the tender offers are worth BGN 1.9 million).

Table 50. Reviewed prospectuses and tender offers

	2015	2016	2017	2018	2019
Prospectuses for initial public offering (number)	12	17	19	19	20
Amount of issue*	124.4	190.6	352.7	358.4	306.0
Decisions for non-issuance of final prohibition for publishing of tender offers (number)	10	6	17	7	9
Turnover**	28.8	25.4	19.3	17.3	4.5

Note: Data are in million BGN, unless stated otherwise. * The amount of the issue is the value of the approved issues according to the reviewed prospectuses for the respective year. ** The turnover includes the proposed number of shares under tender offer for which no final prohibition has been given or which have not been terminated.
Source: FSC.

The market capitalization of the first ten companies on the Main Market increased by BGN 141.8 million, which represents 14.7% of the total market capitalization of the BSE. On the first position in terms of market capitalization is Tchaikapharma High Quality Medicines AD, which increases its market capitalization by 37.9% compared to the previous year, as the company has a 3.2% share of the total market capitalization on the stock exchange. Although compared to the previous year the market capitalization of Sopharma AD decreased by -3.4%, the company climbed from third to second position and has a 1.6% relative share of the total market capitalization of the BSE. In third place with a growth of 10.0% is CEZ Distribution Bulgaria AD, which climbs from fifth position and has a share of 1.5% together with the next company in the ranking - Gradus AD, which retains its position from the previous year, although its market capitalization decreased by -1.5% during the year. CB First Investment Bank AD, which in 2018 ranked sixth in the ranking, increased its market capitalization by BGN 370.7 million in 2019 (5.6%) and moved to fifth place. Chimimport AD moved from second to sixth place in 2019 after the market capitalization of the company decreased by -20.3%. In seventh and eighth place are the companies Eurohold Bulgaria AD and Velgraf Asset Management, whose market capitalization

increased by 9.3% and 3.2%, respectively, and have 1.2% and 1.0% relative shares of the total market capitalization, respectively. In 2019, in the ranking of the leading companies on the BSE in the last two places are Speedy AD and Holding Varna AD after replacing Monbat AD and M + S Hydraulic AD, whose market capitalizations decreased by -16.6% and -9.7% during the year. The difference between the first and the last public company by market capitalization is BGN 635.2 million. For comparison, at the end of the previous year this difference was BGN 387.7 million.

Table 51. Top 10 public companies by market capitalization on the main market

	2018	2019	
Capital Concept Limited AD-Sofia	649.8	Tchaikapharma High Quality Medicines AD-Sofia	896.0
CB First Investment Bank AD-Sofia	478.1	Chimimport AD-Sofia	458.3
Sopharma AD-Sofia	474.5	Sopharma AD-Sofia	424.2
CEZ Distribution Bulgaria AD-Sofia	415.4	Gradus AD	409.3
Tchaikapharma High Quality Medicines AD-Sofia	385.6	CEZ Distribution Bulgaria AD-Sofia	391.6
Chimimport AD-Sofia	370.7	CB First Investment Bank AD-Sofia	381.0
Monbat AD-Sofia	318.0	Eurohold Bulgaria AD-Sofia	347.6
M+S Hydraulic AD-Kazanlak	308.1	Monbat AD-Sofia	270.4
Eurohold Bulgaria AD-Sofia	301.8	M+S Hydraulic AD-Kazanlak	266.7
Albena AD-Albena	262.1	Velgraf Asset Management AD	260.7
TOTAL	3 964.0	TOTAL	4 105.9

Note: Data are in million BGN, unless stated otherwise.
Source: BSE.

In the structure of trade of the first 10 leading branches of Bulgarian Stock Exchange AD for 2019, the sector Financial and Insurance Activities occupied the first place with a turnover of BGN 111.0 million and a relative share in the total turnover of 48.2%, followed by Real Estate Transactions with a turnover of BGN 52.8 million and a share of 22.9%. The trade in shares of the Manufacturing sector realized a turnover of BGN 27.4 million. and has a share of 11.9%, while the Transport, Warehousing and Post Office industry has an annual turnover of BGN 12.3 million. and a relative share of 5.3% in the structure of trade on the main stock market.

Table 52. Trade structure by Top 10 sectors on BSE in 2019

Sector	Transactions (thsnd. numers)	Volume (million lots)	Volume (million BGN)
Financial and insurance activities	23.3	47.5	111.0
Operations with real estate	0.7	6.6	52.8
Manufacturing industry	7.2	6.4	27.4
Creation and distribution of information and creative products; telecommunications	0.1	0.3	4.0
Professional activities and research	2.1	5.1	5.0
Construction	1.1	0.5	1.3
Wholesale and retail trade, repair of motor vehicles and motorcycles	1.7	1.9	3.5
Production and distribution of electricity and heat, and of gaseous fuels	0.9	0.0	3.9
Accommodation and food service activities	1.6	0.2	8.6
Mining and quarrying industry	0.1	0.0	0.2
Transportation, storage and postal services	0.4	2.6	12.3

Source: BSE.

The shareholder structure of public companies remains stable compared to the previous year. At the end of 2019, Bulgarian residents hold 54.8% of the share capital of public companies, calculated on the basis of issued equity instruments at nominal value. Although the share of households and legal entities from third countries decreased by 0.3 percentage points. In 2019, their share remains significant in the shareholder structure of public companies (42.3%). Households and legal entities resident in the EU have a share of 2.5%, followed by individuals and legal entities from the USA (0.4%). In 2019, the Bulgarian pension funds increased their share in the total shareholder structure by 1 percentage point, followed by the banks, whose relative share increased from 1.4% to 2.0%. The share of other institutional investors, with the exception of joint stock and holding companies, also increased during the year. The internal structure of the share of Bulgarian residents is relatively preserved. The main Bulgarian shareholder, despite the continuing decline in the relative share, remain the companies from the Joint Stock and Holding Companies sector with a share of 27.9% and the Households sector with a share of 15.0%, followed by Pension Funds with a share of 6.0%. The main contribution to the internal restructuring was the increase in the shares held by pension funds and commercial banks in public companies at the expense of the

decrease in the share of shares held by joint stock and holding companies.

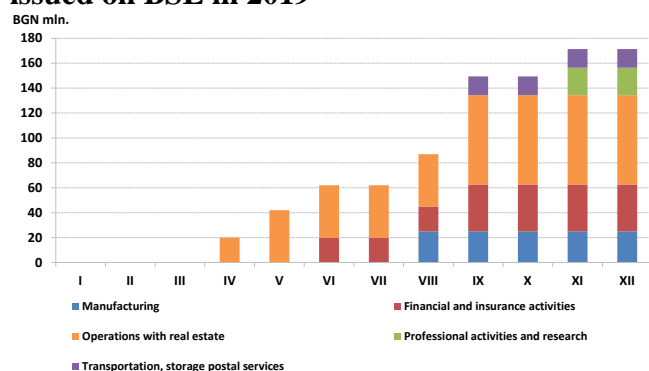
Table 53. Shareholders structure of PCs

	2018	2019
Households	14.9	15.0
Banks	1.4	2.0
Public sector	0.1	0.1
Insurance companies (IC)	0.5	0.7
Pension funds (PF)	5.0	6.0
Financial intermediaries except for IC and PF	3.1	3.3
Shareholding and holding companies	29.5	27.9
Bulgaria	54.5	54.8
Households from the EU	0.2	0.2
Legal entities from the EU	2.4	2.2
EU	2.6	2.5
Households from third countries	0.2	0.3
Legal entities from third countries	42.4	42.0
Third countries	42.6	42.3
Households from the USA	0.0	0.0
Legal entities from the USA	0.4	0.4
USA	0.4	0.4
TOTAL	100.0	100.0

Note: Data are in percentages (%), unless stated otherwise. The relative share of the shareholder groups is calculated on the basis of the nominal value of the shares.
Source: CD, FSC.

In 2019, corporate bonds with a face value of BGN 171.4 million were issued on a regulated market. In the Real Estate Operations sector, bonds with a nominal value of BGN 71.8 million were issued, which represents 41.9% of the total debt issued on the BSE during the year. Financial and insurance activities sector accounted for 21.9% with a nominal value of debt instruments of BGN 37.6 million. Next are the Manufacturing sector with a nominal value of BGN 25.0 million and share 14.6%, Professional activities and research with a nominal value of BGN 22.0 million and a share of 12.8% and Transport, warehousing and post offices with bond debt issued with a nominal value of BGN 62.0 million and a relative share of 8.8% of the corporate bond debt listed on the stock exchange in 2019.

Graph 64. Amount of cumulative bond debt issued on BSE in 2019



Source: BSE, FSC.

2.2.5. Trading venues

The total market capitalization of the main market and the alternative market of the Bulgarian Stock Exchange AD increased by 4.3% on an annual basis and at the end of 2019 amounted to BGN 27.9 billion. The capitalization of the main market increased by 2.4% on an annual basis and reached BGN 8.9 billion as at the end of 2019, while the alternative market recorded an annual growth of 5.1% and reached BGN 19.0 billion at the end of the year. The Premium shares trading segment on the main market shrank by BGN -142.3 million during the year and marked a decline of -7.3%, reaching BGN 1.8 billion market capitalization, which has a growth-limiting negative contribution of -0.5 percentage points. The Standard shares trading segment on the main market reached BGN 6.3 billion, increasing its market capitalization by 2.9% on an annual basis (BGN 176.6 million) and has 0.7 percentage points. positive contribution to the overall growth of both markets. Accordingly, the Shares on the alternative market segment, which at the end of 2019 reached BGN 18.6 billion, increased by 5.7% and contributed positively by 3.7 percentage points. The market capitalization of the special purpose investment companies segment on the main market marked an annual growth of 28.6% (BGN 174.8 million) and reached BGN 786.0 million, but due to the size of the segment there was

a limited contribution of 0.7 percentage points, while the segment for special purpose investment companies on the alternative market, whose capitalization decreased by -14.4% to BGN 416.5 million, has a growth-limiting negative contribution of -0.3 percentage points.

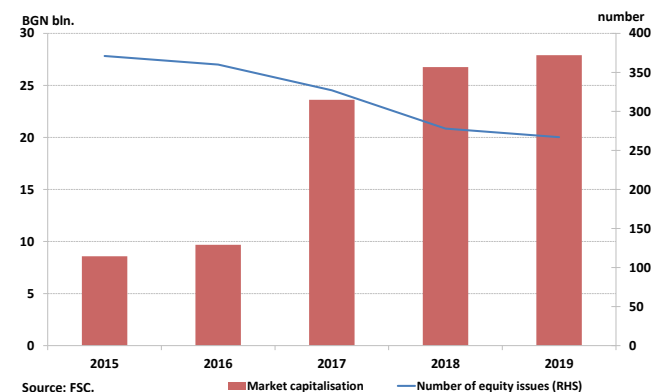
Table 54. Market capitalization

Market or segment	2015	2016	2017	2018	2019
Premium Equities Segment (main market)	1 240.1	1 720.3	2 303.3	1 938.7	1 796.4
Standard Equities Segment (main market)	5 543.6	5 766.6	19 350.2	6 138.3	6 314.9
SIPC segment (main market)	537.9	579.3	700.0	611.2	786.0
Equities Segment (alternative market)	929.0	1 255.7	895.7	17 590.4	18 590.7
SIPC segment (alternative market)	336.7	360.7	371.7	486.7	416.5
TOTAL	8 587.4	9 682.5	23 621.0	26 765.3	27 904.5

Note: Market capitalisation is at the end of the year.
Source: BSE.

The number of issues of financial instruments admitted to trading on the markets organized by the BSE in 2019 decreased net by 11 issues and by the end of the year their number was 370. The number of issues of shares decreased net by 11. The decrease is both due to relocation and due to division of companies on the BSE.

Graph 65. Market capitalization and number of share issues

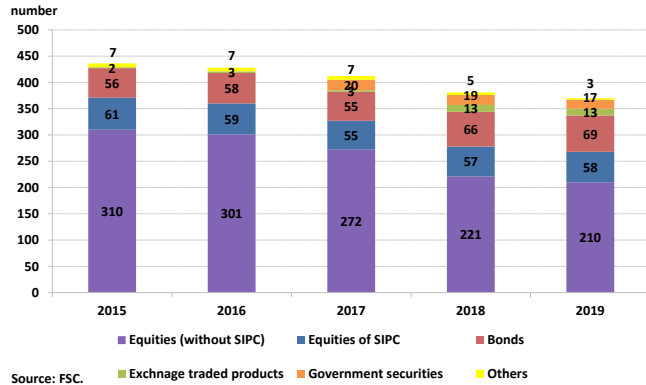


Source: FSC.

On the stock market without SPICs, issues decreased from 221 in 2018 to 210 in 2019. In the segment of special purpose investment companies, the number of issues increases by one compared to the end of 2018 and by the end of 2019 their number is 58. The issues of bonds registered on the stock exchange in 2019 increased by 3 and by the end of the year their number reached 69. The issues of government securities traded on the segment of government securities trading on the main market are 17. In the segment for exchange-traded

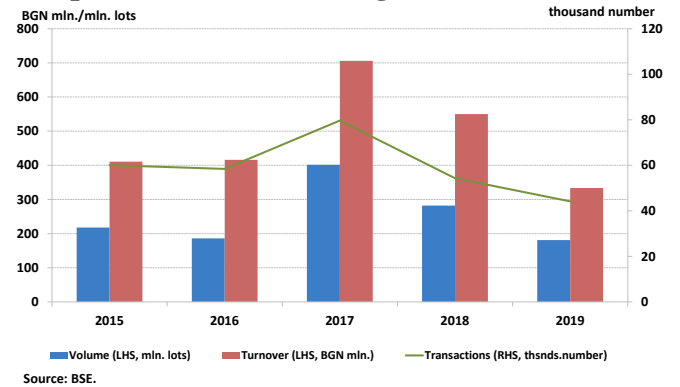
products, 13 issues of funds from this segment are traded. The issues of other financial instruments, which include issues admitted to trading in the Compensatory Instruments Segment, are a total of three.

Graph 66. Structure of issues



The number of transactions decreased by -18.7% on an annual basis, from 54,341 transactions at the end of 2018 to 44,167 transactions in 2019. The total number of lots transferred in 2019 was 181.0 million lots, which is a decrease of -35.8% compared to the previous year or 101.1 million lots less. Trading on the BSE markets, measured by turnover, ended the year with a decrease of -39.4%, from BGN 550.0 million in 2018 to BGN 333.6 million, as the decline is observed in all groups of financial instruments. The average daily turnover on a regulated market in 2019 is BGN 1.4 million, decreasing by -39.4% compared to the previous year. A major negative contribution of -13.8 percentage points belongs the government securities on the main market segment, followed by the Premium shares segment, (-7.9 percentage points) and the segment for trading in bonds (-5.6 percentage points).

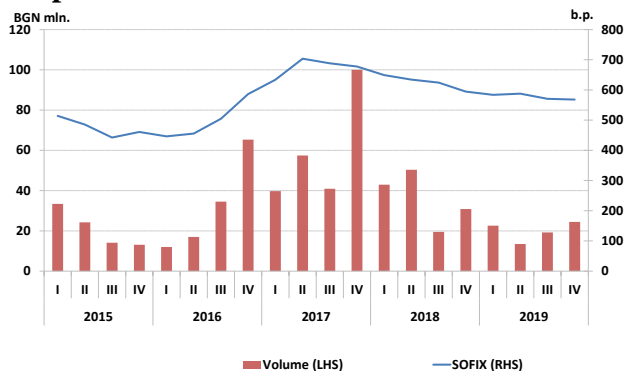
Graph 67. Trade on the regulated market



The dynamics of the BSE indices has diverged over the past year, with two of them - SOFIX and BGBX40 - ending with a decline, and the rest - BGTR30 and BGREIT - rising in 2019. In the first half of the year SOFIX and BGBX40 were moving downward, in the second quarter they managed to reach below and around the average short-term and long-term daily values, followed by a decline in the fourth quarter and a reversal at the end of the year. The movement of BGTR30 was characterized by a decline at the beginning of the year, followed by an upward trend until the middle of the third quarter, after which the value of the index fell until the beginning of December and ended the year in positive territory. The sectoral BGREIT, which is usually an exception to the general trend due to the nature of the companies included in the index, moves upwards throughout the year, with values above the short-term and long-term averages. The turnover of the companies included in the indices in 2019 decreases significantly in all market indices except BGREIT.

In 2019, the main stock exchange index SOFIX reported a decline of -4.4% on an annual basis, reaching 568.14 points at the end of the year. The market capitalization of the companies included in the index is BGN 3.4 billion, which is a share of 12.0% of the total capitalization of the BSE, which at the end of 2019 was BGN 27.9 billion.

Graph 68. SOFIX market index

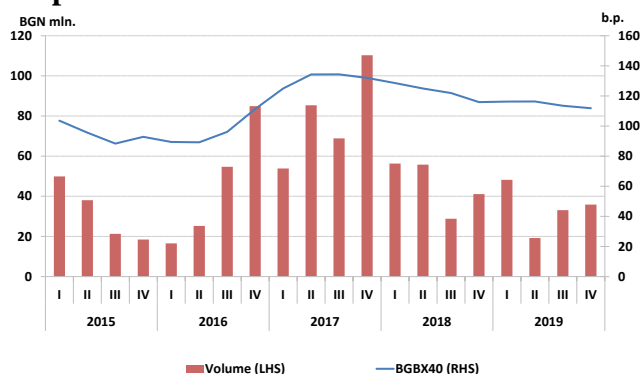


Source: BSE.

Note: The value of indices is the last value for the respective period.

In 2019, the broad stock index BGBX40 reported a decline of -3.5%, ending the year at 111.83 points. The market capitalization of the companies included in the index (BGN 6.5 billion) represents a share of 23.5% of the total market capitalization of the BSE at the end of 2019.

Graph 69. BGBX40 market index



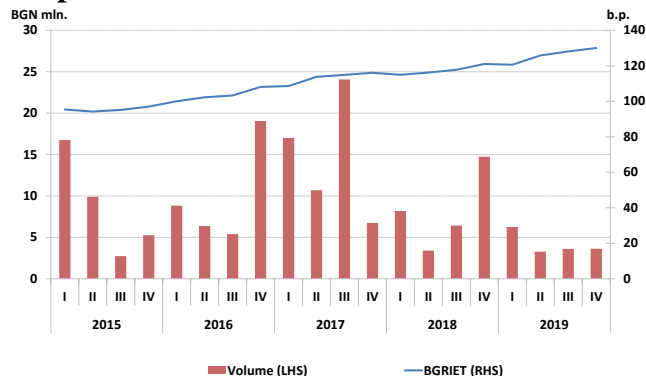
Source: BSE.

Note: The value of indices is the last value for the respective period.

The BGREIT sector index accelerated its growth rate from the previous year. In 2019, it reported an increase of 7.4% on an annual basis, ending the year at 130.03 points. Its sectoral profiling and the scale of the represented sector lead to a limited share of the total market capitalization by the end of 2019, due to which its dynamics is not fully indicative of the general trends and dynamics of the SPIC segment. The market capitalization of the special investment purpose companies (BGN 498.3 million) included

in the index represents 1.8% of the represented sector of SPICs from the total capitalization of the BSE as of the end of 2019.

Graph 70. BGREIT market index

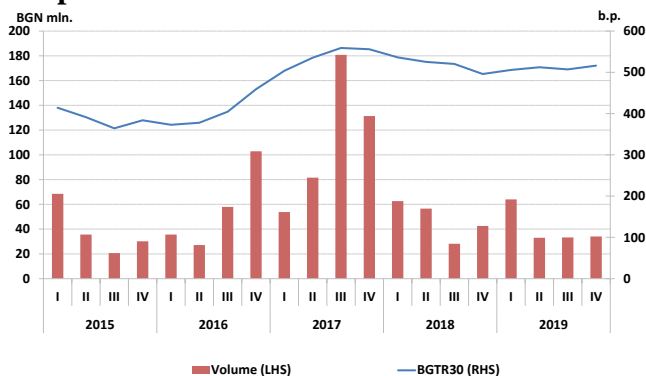


Source: BSE.

Note: The value of indices is the last value for the respective period.

The weighted index BGTR30 increased by 4.1% on an annual basis and by the end of 2019 its value reached 516.28 points. The market capitalization of the companies included in the index (BGN 5.5 billion) is 19.9% of the total market capitalization of the BSE at the end of 2019.

Graph 71. BGTR30 market index



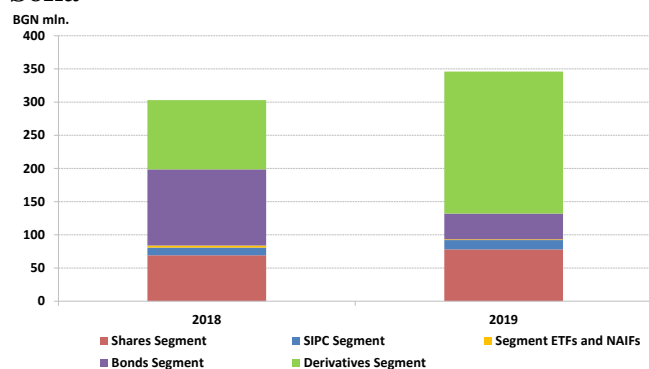
Source: BSE.

Note: The value of indices is the last value for the respective period.

In 2019, the Multilateral Trading Facility - Sofia (MTF) increased its turnover by 14.2% and reached BGN 345.9 million. The largest contribution to this increase was made by the Derivatives segment, whose turnover more than doubled during the year and reached BGN 213.8 million and has a positive contribution of 36.1

percentage points. in trade growth. The Shares and SPICs segments follow, which increase by 12.7% and 22.2%, respectively, and reach BGN 78.0 million, respectively BGN 14.0 million annual turnover. Their positive contribution is a total of 3.7 percentage points, while the ETF and NAIF and Bonds segments have a growth-limiting negative contribution of a total of -25.7 percentage points.

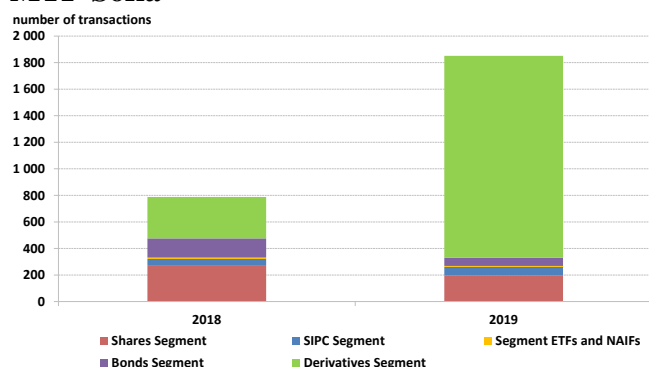
Graph 72. Dynamics of the turnover of MTF-Sofia



Source: MTS - Sofia.

The number of transactions marked an annual growth of 134.9% and reached 1,851. The main contribution to this increase is made by the Derivatives segment, on which 1,521 transactions were concluded during the year and it has a positive contribution of 153.4 percentage points.

Graph 73. Number of traded transactions of MTF-Sofia



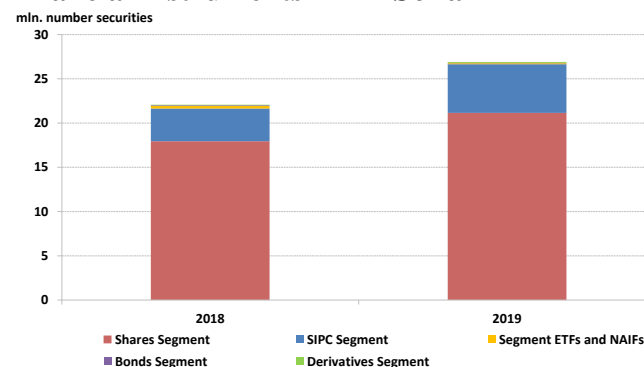
Source: MTS - Sofia.

2.3. Insurance market

As of the end of 2019, the total number of licensed (re) insurers domiciled in the Republic of Bulgaria is 36. Of these, 24 are non-life insurance companies, 11 life insurance companies and 1 reinsurer whose

In 2019, 26.9 million financial instruments were traded, which compared to the previous year is an increase of 21.9%. The main contribution to this increase was the increase in the number of traded instruments in the Equities segment, which contributed positively by 14.5 percentage points, followed by the SPICs segment, which contributed positively by 8.1 percentage points. and the Derivatives segment with a positive contribution of 0.3 percentage points. The ETF and NAIF and Bonds segments decreased the number of traded financial instruments by -61.6% and -60.6%, respectively, and had a growth-limiting negative contribution of a total of -1.0 percentage points.

Graph 74. Dynamics of the traded number of financial instruments MTF-Sofia



Source: MTS - Sofia.

license entitles the company to perform life and non-life reinsurance activities. Of these, 31 companies apply Solvency II and are entitled to market access to the European Union and the European Economic Area (Single Market), while the other 5 insurers operate without a single market access.

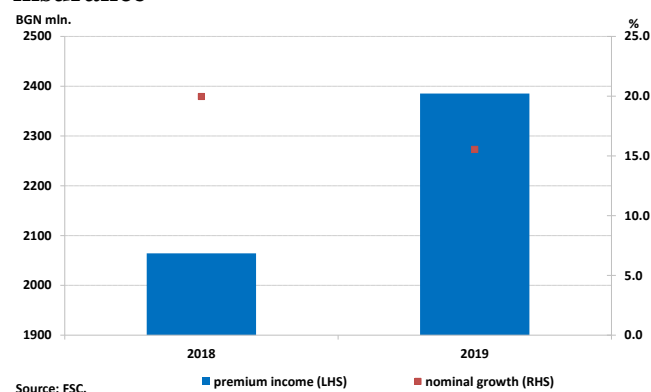
On the basis of the information from the quarterly reports according to Ordinance No. 53 at the end of the fourth quarter of 2019, which included the data for all insurers with headquarters in the Republic of Bulgaria:

- the gross premium income as at 31.12.2019 amounted to BGN 2.9 billion, recording an increase of 14.8% on an annual basis;
- the Bulgarian insurance market (life and non-life insurance) was allocated in an 83% to 17% ratio for the benefit of the registered non-life insurance premiums;
- insurance penetration, calculated on the basis of gross premium income as a percentage of GDP, is estimated at 2.45% at the end of 2019 compared to 2.70% at the end of the previous year. The insurance penetration indicator for non-life insurance is estimated at 2.03% at the end of the reporting period, compared to 2.23% a year earlier. Life insurance penetration at the end of 2019 is calculated as 0.42% versus 0.46% a year earlier;
- the insurance density, calculated as gross premium income per capita⁴⁴, increased to BGN 419 at the end of 2019, compared to BGN 416 at the end of 2018. The insurance coverage for non-life insurance amounted to BGN 347 per capita compared to the value of BGN 345 calculated for 2018. The insurance density for life insurance amounted to BGN 72 per capita compared to BGN 71 a year earlier.
- the financial result realized by the insurers at the end of 2019 amounts to BGN 148 million, compared to BGN 103 million at the end of 2018. Non-life insurers report a financial result in the total amount of BGN 119 million, compared to BGN 81 million at the end of 2018. Life insurers also reported a positive financial result of BGN 29 million, compared to a result of BGN 21 million at the end of 2018.

2.3.1. Non-life insurance

The gross premium income realized by non-life insurers, domiciled in the Republic of Bulgaria, with the right of access to the single market⁴⁵, at the end of 2019 amounts to BGN 2.4 billion, incl. BGN 2.4 billion on direct insurance and BGN 21.7 million on active reinsurance. On a yearly basis, gross premium income grew by 16%. The growth in premium income for the overall market is mainly due to the increase in the premium income for the compulsory motor third party liability insurance and the premium income from credit and guarantee insurance.

Graph 75. Gross premium income in non-life insurance



In 2019, in the structure of the portfolio of non-life insurance companies, the major share of

⁴⁴ According to NSI data, the population in 2019 amounted to 6,951,482 people.

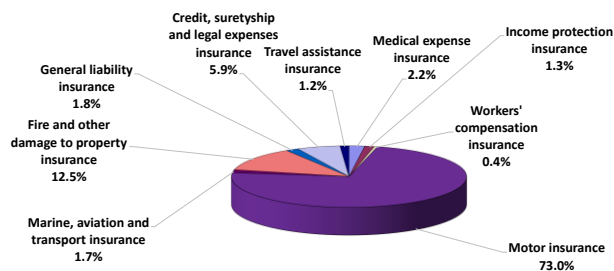
⁴⁵ The analysis for the insurance market was based on the quarterly reports for the fourth quarter of 2019 received by

the Financial Supervision Commission (FSC) in accordance with Regulation 2015/2450 (Solvency II) and included data on insurers with headquarters in the Republic of Bulgaria which have the right to access the single market .

73% was held by motor insurances, with motor third-party liability insurance accounting for 45%, and the share of other motor insurance (AutoCasco) insurances was 28%, respectively.

The realized premium income on motor third-party liability insurance for 2019 increased by 17% on an annual basis (BGN 162 million in absolute terms) and amounted to BGN 1.1 billion.

Graph 76. Structure of gross premium income by classes of insurance for 2019



Source: FSC.

The increase in the premium income on an annual basis under this class of insurance is contributed by: the actions taken by the FSC in 2018 in connection with the adequacy of premiums and reserves under this insurance, the effect of Interpretative Decision No 1/2016, Sofia of 21 June 2018 of the Supreme Court of Cassation of the Republic of Bulgaria, which expands the circle of persons entitled to compensation in the event of death under motor third party liability insurance; the increase of the average premium for motor third party liability insurance for 2019 by 13% compared to 2018.⁴⁶

For the period January – December 2019, the premium income written on AutoCasco insurance amounted to BGN 656 million. In this class of insurance an increase of 6% on an annual basis is reported, as there is an increase in the number of concluded contracts by 10.6% on an annual basis.

At the end of 2019, property insurances against fire and other disasters in Bulgaria accounted for a share of 12.5% of the gross premium income compared to 14% at the end of 2018. The realized premium income for these insurances amounted to BGN 298 million, a minimum growth of 1% on an annual basis being reported.

Insurance in respect of medical expenses, income protection and compensation of workers occupied a 9% share in the structure of gross premium income realized by non-life insurers at the end of 2019. Premium income on these insurances in 2019 amounted to BGN 92.9 million compared to BGN 75.5 million in 2018, as a result of greater demand for this class of insurance.

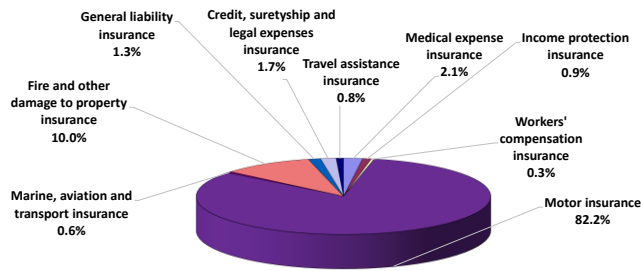
In 2019, there is a significant increase in the credit and guarantee insurance premiums written by insurers from BGN 35.5 million at the end of 2018 to BGN 128.4 million at the end of 2019. The increase is mainly due to the increased recorded business by insurers as a result of changes in the Public Procurement Act, which envisages securing with performance insurance under a Public Procurement Contract by covering the contractor's liability. An increase is also reported in the business recorded by insurers based in the Republic of Bulgaria, operating in other EU Member States under the conditions of freedom to provide services.

The premiums ceded to reinsurers for non-life insurance for 2019 were in the amount of BGN 790 million, representing 33% of the gross written premium generated in the sector. Self-retention coefficient was calculated at 0.67.

The claims arising for non-life insurance at the end of 2019 amounted to BGN 1.2 billion, with an increase of 5% on an annual basis.

⁴⁶ According to data from the Unified Information System for Risk Assessment, Management and Control of the Guarantee Fund.

Graph 77. Structure of claims arising by classes of insurance for 2019



Source: FSC.

Similarly to the structure of gross premium income, in the structure of claims arising by classes of insurance, the largest relative share of 82% was held by car insurances, followed by real estate insurance holding a share of 10%.

The largest increase in the amount of claims on an annual basis at the end of 2019 is reported in insurance against fire and other disasters (by BGN 30 million). This increase is due to the increase in the amount of the average claim filed on an annual basis.

The gross loss ratio at the end of 2019 in general for the market is 0.55 compared to 0.62 a year earlier.

Table 55. Gross loss ratio

	2017	2018	2019*
Medical expense insurance	0.59	0.63	0.54
Income protection insurance	0.34	0.39	0.38
Workers' compensation insurance	0.29	0.36	0.40
Motor vehicle liability insurance	0.73	0.89	0.69
Other motor insurance	0.52	0.49	0.49
Marine, aviation and transport insurance	0.26	0.15	0.17
Fire and other damage to property insurance	0.49	0.32	0.43
General liability insurance	0.32	0.34	0.41
Credit and suretyship insurance	0.74	0.45	0.19
Legal expenses insurance	0.91	0.00	0.02
Assistance	0.28	0.38	0.36
Miscellaneous financial loss	0.00	0.00	0.71
TOTAL	0.57	0.62	0.55

Note: * Data for 2019 are preliminary.
Source: FSC.

The expenses incurred by the non-life insurance companies (all technical expenses incurred by the companies during the reporting period) decreased by 1% on an annual basis and at the end of 2019 amounted to BGN 577 million.

They were 26% of the gross premium income generated by the sector.

Table 56. Gross expense ratio

	2017	2018	2019*
Medical expense insurance	0.35	0.28	0.23
Income protection insurance	0.44	0.44	0.44
Workers' compensation insurance	0.39	0.36	0.37
Motor vehicle liability insurance	0.24	0.24	0.14
Other motor insurance	0.41	0.37	0.37
Marine, aviation and transport insurance	0.30	0.26	0.22
Fire and other damage to property insurance	0.32	0.30	0.31
General liability insurance	0.40	0.31	0.34
Credit and suretyship insurance	0.53	0.48	0.49
Legal expenses insurance	0.69	0.63	0.53
Assistance	0.58	0.51	0.52
Miscellaneous financial loss	0.72	0.77	0.74
TOTAL	0.33	0.31	0.26

Note: * Data for 2019 are preliminary.
Source: FSC.

At the end of 2019, the highest gross combined ratio, above 1, was calculated for Miscellaneous Financial Loss Insurance.

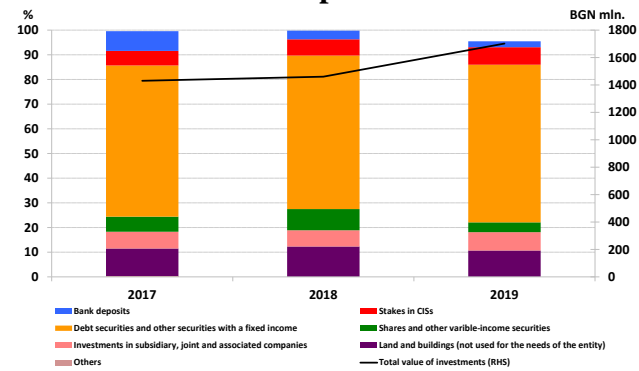
Table 57. Gross combined ratio

	2017	2018	2019*
Medical expense insurance	0.94	0.91	0.77
Income protection insurance	0.78	0.83	0.82
Workers' compensation insurance	0.68	0.72	0.77
Motor vehicle liability insurance	0.97	1.13	0.83
Other motor insurance	0.93	0.86	0.86
Marine, aviation and transport insurance	0.56	0.41	0.39
Fire and other damage to property insurance	0.81	0.62	0.74
General liability insurance	0.72	0.65	0.75
Credit and suretyship insurance	1.27	0.93	0.68
Legal expenses insurance	1.60	0.63	0.55
Assistance	0.86	0.89	0.88
Miscellaneous financial loss	0.72	0.77	1.45
TOTAL	0.90	0.93	0.81

Note: * Data for 2019 are preliminary.
Source: FSC.

At the end of the reporting period, the total assets of non-life insurance companies amounted to BGN 3.6 billion, increasing by 14% on an annual basis. The value of investments of these companies increased by 17% at the end of 2019 and amounted to BGN 1.7 billion, occupying a share of 48% of total assets. In the structure of the aggregate investment portfolio of non-life insurance companies, government bonds occupy a major share (54%), followed by real estate investments (11%) and corporate bonds (10%).

Graph 78. Structure of investment portfolio of non-life insurance companies



Source: FSC.

The share of real estate investments (other than investment in real estate for own use) in the total investment portfolio of non-life insurance companies in the last three-year period remained relatively stable in the range 11%- 12%. The share of investments in shareholdings in affiliated enterprises also remained within 7%. The share of investments in bonds, including GS, increased by 2 percentage points over one year, reaching 64%. This type of investments during the last several years increased at the expense of the share of investments in bank deposits with their share falling significantly in the last years, reaching 2% at the end of 2019.

By the end of 2019, the total amount of the liabilities of the non-life insurers amounted to BGN 2.5 billion and increased by 10 % on an annual basis. Gross technical reserves set aside by non-life insurance companies accounted for 87% of the liabilities of non-life insurers.

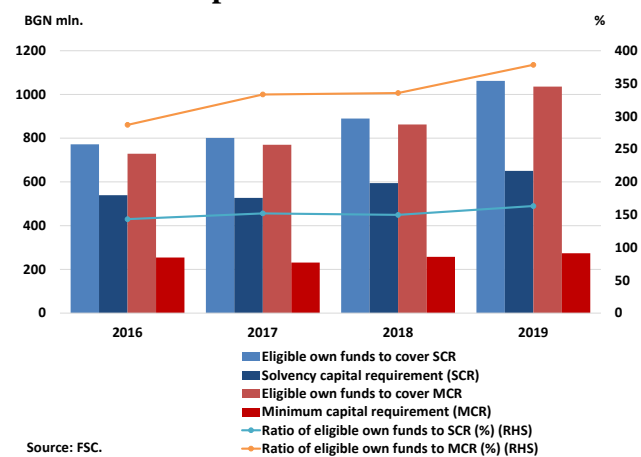
At the end of 2019 the gross technical reserves set by non-life insurance companies increased by 10 % reaching BGN 2.2 billion. Interpretative decision No. 1/2016 of the Supreme Court of Cassation of the Republic of Bulgaria, under which the circle of the beneficiaries of the obligatory Motor Third-Party Liability insurance was extended, also had its impact on the increased amount of reserves.

The excess of the assets over the liabilities (obligations) of the non-life insurers at the end of 2019 was estimated at BGN 1.1 billion compared to an excess of BGN 860 million at the end of 2018

The eligible own funds to cover the solvency capital requirement of non-life insurers as at 31.12.2019 amounted to BGN 1.1 billion, and the solvency capital requirement (SCR) amounted to BGN 651 million. Eligible tier 1 own funds - unlimited, occupy 95% of the total eligible own funds. The coverage of the MCR with eligible own funds at the end of 2019 was estimated at 163%.

The eligible own funds to cover the minimum capital requirement of non-life insurers as at 31.12.2019 amounted to BGN 1.0 billion, and the minimum capital requirement (MCR) amounted to BGN 274 million. Respectively, the coverage of the MCR with eligible own funds at the end of 2019 was estimated at 378%.

Graph 79. Capital requirements of non-life insurance companies

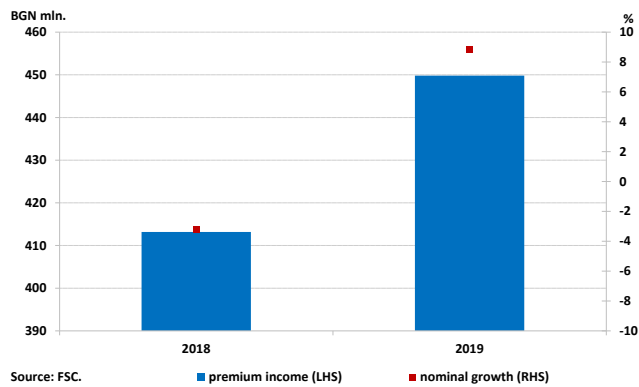


Source: FSC.

2.3.2. Life insurance

The gross premium income recorded by life insurers at the end of 2019 reported a decrease of 9% on an annual basis and at the end of 2019 amounted to BGN 450 million.

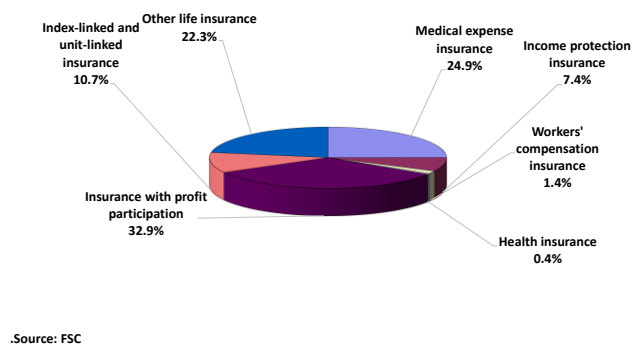
Graph 80. Gross premium income in life insurance



With regard to the structure of the portfolio of life insurers by classes of insurance at the end of 2019, there was no significant change compared to previous years and a major share of the portfolio accounted for profit-sharing insurance (33%), insurance for medical expenses (25%) and other life insurances (22%).

The increase in the share of insurance for medical expenses (from 13% at the end of 2017 to 18% at the end of 2018 and 25% at the end of 2019) continued in 2019.

Graph 81. Portfolio structure of life insurance companies in 2019



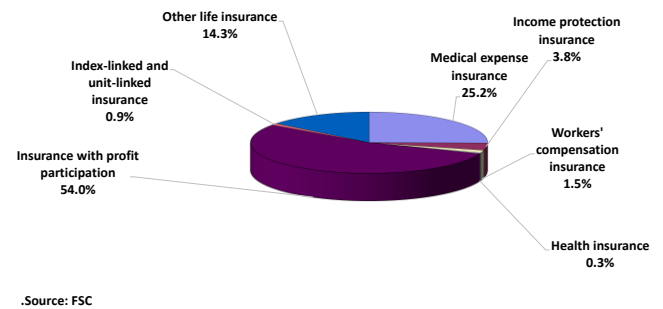
An increase on an annual basis in the amount of premiums written is reported in medical expenses insurance, workers' compensation insurance, index-linked and unit-linked insurance and other life insurance.

The gross claims arising in 2019 for life insurance amount to BGN 173 million. On an

annual basis, an increase of claims arising during the year by 14% is reported.

In the overall structure of the arising claims, the largest share was the share of profit-sharing insurance (54%), followed by insurance for medical expenses (25%) and other life insurances (14%).

Graph 82. Structure of claims arising by classes of life insurance for 2019



The expenses incurred by life insurers in connection with their operation increased by 2% annually and at the end of 2019 amounted to a total of BGN 121 million, representing 30% of the premiums earned for the period.

The total amount of the assets in the life insurance sector increased by 20% on an annual basis and at the end of 2019 amounted to BGN 1.8 billion.

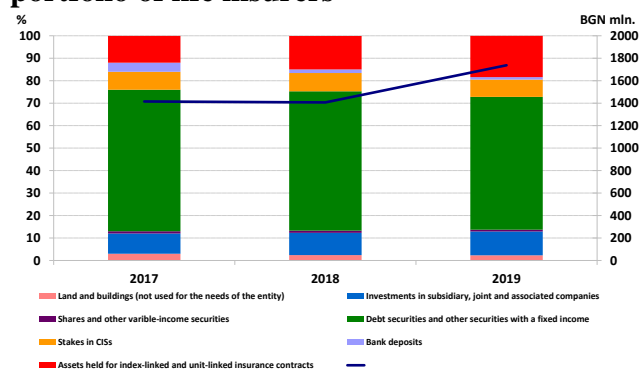
The value of the investments of the life insurers (including the value of the contractual investments linked to an index and with investment fund shares) was BGN 1.7 billion at the end of 2019, representing 94% of the total assets in the sector. Their value increases by 25% on an annual basis.

The value of investments, excluding the assets held for index-linked and unit-linked contracts, amounted to BGN 1.4 billion. Of this, a major part at the end of 2019 was occupied by the value of the government bonds (61%), followed by the value of the shareholding in affiliated enterprises (13%) and of corporate bonds (8%). The largest

increase on an annual basis was observed in the value of government bonds (BGN 125 million in absolute value) and shareholding in affiliated enterprises (BGN 44 million in absolute value). As a result of the continuing environment of low interest rates, in 2019 there was a decrease (by BGN 4.3 million on an annual basis) in the value of deposits other than cash equivalents.

The value of the assets held for index-linked and unit-linked contracts increased by 53% on an annual basis reaching BGN 321 million at the end of 2019, these investments accounting for 17% of the total amount of assets in the life insurance sector.

Graph 83. Structure of the investment portfolio of life insurers



Source: FSC.

The gross technical reserves allocated by the life insurers (excluding technical reserves under index-linked and unit-linked shares) in 2019 increased by 13% and at the end of the year amounted to BGN 979 million.

Technical reserves under index-linked and unit-linked contracts set aside at the end of 2019 increased by 47% on an annual basis and amounted to BGN 302 million at the end of the year.

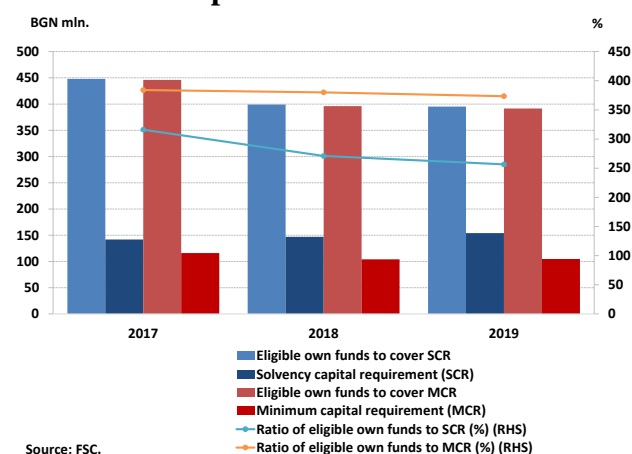
The excess of the assets over the liabilities (obligations) of the life insurers at the end of 2019 was estimated at BGN 493 million compared to an excess of BGN 411 million at the end of 2018. The increase is due to the fact that the increase in the value of assets precedes the increase in the value

of the liabilities of life insurers during the period considered.

The eligible own funds to cover the solvency capital requirement of life insurers as at 31.12.2019 amounted to BGN 485 million, and the minimum capital requirement (MCR) amounted to BGN 187 million. Eligible tier 1 own funds - unlimited, occupy a share of 99% of the total eligible own funds. The coverage of the MCR with eligible own funds at the end of 2019 was estimated at 259%.

The eligible own funds to cover the minimum capital requirement for solvency of life insurers as at 31.12.2019 amounted to BGN 480 million, and the minimum capital requirement (MCR) amounted to BGN 108 million. Respectively, the coverage of the MCR with eligible own funds at the end of 2019 was estimated at 445%.

Graph 84. Capital requirements for life insurance companies



Source: FSC.

Compared to 2018, there is a minimal change in the value of the eligible own funds to cover the solvency capital requirement and the solvency capital requirement.

2.3.3. Re-insurance

In the year 2019, five non-life insurance companies, one life insurance company and one re-insurer operated in the field of reinsurance.

The premium income realized by them during the year amounts to BGN 1.9 billion compared to BGN 1.8 billion a year earlier. The main share in the activity of active reinsurance during the reporting year is occupied by the property insurance against fire and other disasters and the

Civil Liability Insurance in connection with motor vehicles.

The indemnities paid to assignors amount to BGN 850 million. In the structure of the indemnities paid the largest share is occupied by motor insurances.

2.3.4. Guarantee and compensation fund

The Guarantee Fund (GF / the Fund) is a legal entity with its seat in the city of Sofia, which pays out compensation to injured persons with regard to mandatory “Motor Third-Party Liability” and “Accident” insurances to the passengers in public transport vehicles, reimburses amounts paid by an EU Member State compensation body, guarantees insurance receivables in cases of insurer insolvency.

GF established and manages the following separate accounts:

- Fund guaranteeing the claims of injured persons from uninsured and unidentified motor vehicles – Fund for uninsured motor vehicles;
- Fund guaranteeing the claims in case of an insurer's insolvency under Article 519, Items 2 and 3 of IC – Compensation Fund.

In 2019 ⁴⁷the revenues of the Fund for uninsured motor vehicles accrued from contributions under mandatory Third Party Liability of motorists insurance and “Accident” insurances for the passengers in public transport vehicles amounted to BGN 37.6 million, compared to BGN 38.7 million at the end of the same period of the previous year.

At the end of 2019, the funds available in the Fund for uninsured motor vehicles, according to Art. 556, para. 1 of the IC, amounted to BGN 85.1 million. Their amount corresponds to the requirement under Art. 556, para. 2 of the IC, according to which the minimum amount was set at BGN 10 million.

The revenues of the Compensation Fund for 2019 amounted to BGN 6 million and grew by 1% on an annual basis.

In 2019, no guaranteed insurance receivables from consumers of insurance services were paid from the funds of the Security Fund. As at 31 December 2019, the funds of the Security Fund amount to BGN 70 million.

2.4. Social insurance market

The net assets of the supplementary pension funds (SPF) increase in 2019, reaching BGN 15.6 billion by the end of the year⁴⁸. The increase in the net assets of the pension funds during the year is a result of both the receipts from contributions for the insured persons, which at the end of 2019 are 4,762,943 people, and the positive result of the investment of the funds in the individual accounts by the pension insurance companies. (PICs). The upward trend in net assets is maintained despite the right granted to change the insurance from the supplementary mandatory pension insurance funds (SPF) to the State Social Insurance (SSI).

⁴⁷Preliminary data for 2019.

2.4.1. Pension insurance companies

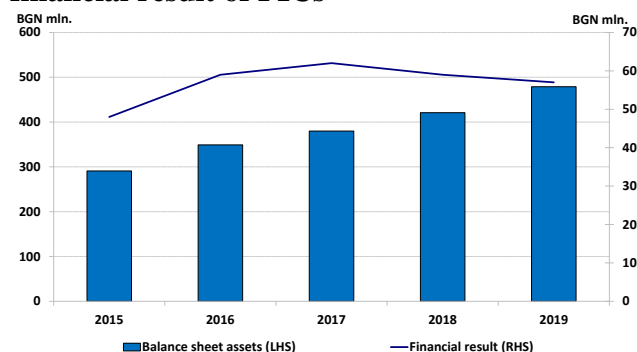
As at 31.12.2019, nine licensed PICs operated, with the total number of the pension funds managed by them being 29, including 9 universal (UPFs), 9 occupational ones (OPFs), 9 voluntary ones (VPF) and two voluntary pension funds with occupational schemes (VPFOS).⁴⁹

Four of the companies active on the pension insurance market were part of international financial groups – NN PIC EAD – NN Group N.V., PIC Allianz Bulgaria AD – ALLIANZ SE, PIC Doverie AD – Vienna Insurance Group AG Wiener Versicherung Gruppe and PIC DSK – Rodina AD – OTP BANK NYRT.

In four of the licensed companies there were shareholders directly holding more than 90% of the capital.⁵⁰

The upward trend in the balance sheet assets of PICs continues, reaching BGN 478.6 million at the end of the year. (increase by 13.7% compared to 2018). The opposite dynamics is observed in the total net financial result of PICs, which for 2019 amounts to BGN 57.1 million and is BGN 2.0 million or 3.4% less compared to the total net financial result for 2018.

Graph 85. Balance sheet assets and net financial result of PICs



Source: FSC.

⁴⁸Preliminary data for 2019.

⁴⁹There were no insured persons yet in one of the VPFOS.

⁵⁰ATBIH GmbH directly held 92.58% of the shares of PIC Doverie AD, DSK BANK EAD directly held 99.75% of PIC

The average value of the capital adequacy indicator for 2019, of all nine licensed pension insurance companies, was 514.2% which significantly exceeded the statutory minimal amount of 50% below the minimum capital.

In 2019, the largest part of the PICs maintained a high level of capital adequacy. The average value of the indicator in 2019 increased by 28.7 percentage points as a result of the increase of the capital adequacy of most of the companies. The indicator varied widely between 60.1% and 926.3% for different companies. One company was an exception with a capital adequacy reaching 1358.8%. In the first quarter of the year, due to an established lasting trend of decreasing the capital adequacy of one PIC, the implementation of intensified monitoring began, which continued throughout 2019.

The liquid resources of PIC and SPF were higher than the statutory minimal amount, i.e. all companies and the funds they managed were able to cover their current liabilities.

Table 58. Capital adequacy and liquidity of PICs and SPFs

	2018	2019
Capital adequacy of PIC (%)	512.5	541.2
Liquidity of PIC (coef.)	8.1	9.2
Liquidity of UPF (coef.)	19.4	18.7
Liquidity of PPF (coef.)	24.9	18.8
Liquidity of VPF (coef.)	134.4	88.4
Liquidity of VPFOS (coef.)	63.7	155.2

Note: The indicators are calculated as an arithmetic mean of the values of individual PIC/SPF.

Source: FSC.

The reserves for guaranteeing the minimum return in UPFs and in OPFs, set aside with funds of PICs, as at December 31, 2019, amount to BGN 170.9 million, and their amount corresponds to the

DSK – Rodina AD, NN Continental Europe Holdings BV, Amsterdam, the Netherlands, directly held 100% of NN PIC EAD and Medianet Industries SA directly held 90.20% of the shares of PIC Future AD.

legal provisions. The investments made with the funds from the reserves, as well as the valuation of the assets, subject to these investments, are in accordance with the regulatory requirements.

The level of coverage of the registered capital ranges widely between 54.4% and 687.7%, with the exception of one company, whose value of this indicator reaches 1,299.0%. The average unweighted value of the indicator for 2019 is 392.0%, compared to 361.5% for 2018. The registered increase of 30.5 percentage points is a result of the increase in the indicator value compared to the previous year in seven of the pension insurance companies. In six of them this is due to an increase in equity and maintaining the amount of registered capital, and in one PIC it is due to a higher rate of growth of equity compared to the increase in registered capital. The registered capital of this company increases by BGN 300 thousand.

In 2019, the reported return on equity is 18.7% on average for the sector, as compared to 2018 there is an increase of 0.4 percentage points. The return on equity indicator in 2019 increased in three of the nine PICs, and in two of them significantly, due to a significant increase in profits for one PIC and for the other - a significant reduction in operating loss. The range of return on equity for individual PICs is broad- its lowest value is (-1.7%) and the highest is 52.9%.

Table 59. Analysis of PICs equity

	2018	2019
Level of coverage of registered capital	361.5	392.0
Profitability of equity	18.3	18.7
Note: Data are in %, unless stated otherwise. The indicators are calculated as an arithmetic mean of the values of individual PIC.		
Source: FSC.		

the degree of coverage of the assets of the managed SPFs is in the range between 1.9% and 4.7%. The average unweighted value of the indicator for 2019 and for 2018 is 3.2%. The value

of the indicator for individual companies remains almost unchanged.

Due to the reported positive current financial result from the activity in 2019, all companies have a positive return on assets, except for one PIC. The average unweighted value of the indicator at the end of 2019 is 10.0% compared to 10.8% for 2018, i.e. a decrease by 0.8 percentage points. For six companies the return on assets indicator decreased, and in three of them this was due to an increase in the assets of PICs at a faster rate than the increase in operating profit, and in the other three the profit decreased and the assets increased. The return on assets increased in two companies, one of which was due to an increase in profit at a faster rate than the growth of assets, and for the other assets increased compared to a decrease in loss. In one company the value of the indicator compared to the previous year does not change. The range of return on assets for individual PICs is broad, its lowest value is (-0.9%) and the highest is 26.3%.

Table 60. Analysis of PIC assets

	2018	2019
Level of coverage of SPFs' assets	3.2	3.2
Profitability of PIC assets	10.8	10
Growth of PIC assets	5.1	15.3
Note: Data are in %, unless stated otherwise. The indicators are calculated as an arithmetic mean of the values of individual PIC/SPF.		
Source: FSC.		

For the year, all companies have a positive value of the asset growth indicator. The average unweighted value of the indicator increases from 5.1% for 2018 to 15.3% for 2019, i.e. during the year there is a much faster growth rate of PIC assets compared to 2018. The value of the indicator increased for six PICs, and decreased only for three. For individual companies, the asset growth indicator is in the range between 5.4% and 19.4%, with the exception of one PIC, whose value of the indicator reaches 39.8%.

Table 61. Analysis of PIC income and expenses

	2018	2019
Efficiency of PIC activities	141.4	134.7
Note: Data are in %, unless stated otherwise. The indicators are calculated as an arithmetic mean of the values of individual PIC.		
Source: FSC.		

The average unweighted value of the PIC performance indicator in 2019 is 134.7%, and compared

to 2018 there is a decrease of 6.7 percentage points. For six PICs the value of the indicator decreased, for five of them this is due to an increase in expenses at a faster rate than the increase in revenues, and for the sixth this is due to a decrease in revenues at a faster rate than the decrease in expenses. For the other three companies the value of the indicator increased, for two of them this is due to an increase in revenues and a decrease in expenses, and for the third PIC the revenues increase at a faster rate than the expense increase. The value of the indicator varies between 98.6% and 182.6%.

Compared to 2018, the revenues of PICs from fees and deductions per participant in pension funds are increasing. The average unweighted value of the indicator for 2019 amounts to BGN 33.33 compared to BGN 31.38 for the previous year, i.e. an increase by BGN 1.95. The value of the indicator for all PICs is increasing, as for six of them this is due to the faster growth rate of revenues from fees and deductions compared to the increase of participants, and in the other three - revenues from fees and deductions increase and participants decrease. The value of the indicator for individual PICs is between BGN 22.04 and BGN 44.21.

The costs for PIC's operations per participant in the managed pension funds increased by BGN 3.10 in the reporting 2019, and at the end of the year they amounted to BGN 30.76 compared to BGN 27.66 in 2018. For six PICs, the value of the indicator increased, and

for four companies this was due to faster growth of costs than the increase in the number of participants, and for two companies the costs increased, and the number of participants decreased. The value of the indicator decreased for the other three companies, for two of them resulting from cost reductions and growth in the number of participants, and in one PIC it was due to a faster rate of decrease in costs compared to the reduction in the number of the participants. The value of the indicator for individual companies was between BGN 19.62 and BGN 51.66.

Table 62. Fees, deductions and operating expenses per participant in SPFs

	2018	2019
Fees and deductions per participant in SPFs	31.4	33.3
Operating expenses per participant in SPFs	27.7	30.8
Note: Data are in BGN, unless stated otherwise. The indicators are calculated as an arithmetic mean of the values of individual SPF.		
Source: FSC.		

The revenues from fees and deductions per BGN 100 of assets of the funds as at the end of 2019 were between BGN 1.04 and BGN 1.36, with the average non-weighted value of the indicator amounting to BGN 1.15 compared to BGN 1.23 in 2018, or a reduction of BGN 0.08. The value of the indicator in all PICs decreased, due to the faster growth of balance sheet assets compared to the increase in income from fees and deductions.

The operating costs per BGN 100 of assets of SPFs for 2019 varied between BGN 0.62 and BGN 1.57. The average non-weighted value of the indicator reported a drop by BGN 0.042, amounting to BGN 1.07 at the end of 2019 compared to BGN 1.11 at the end of 2018. The value of the indicator for six companies decreased, which for three of them was due to the increase in the assets of SPFs and the decrease in expenses, and for the other three it was the growth of SPFs' assets outpaced the rate of increase of the managed SPF's balance

sheet assets. For three PICs, the indicator increases as the growth rate of expenses outpaced the growth of the balance sheet assets of the managed SPFs.

Table 63. Fees, deductions and operating costs per BGN 100 of SPFs assets

	2018	2019
Fees and deductions per BGN 100 of SPFs assets	1.2	1.1
Operating expenses per BGN 100 of SPFs assets	1.1	1.1

Note: Data are in BGN, unless stated otherwise. The indicators are calculated as an arithmetic mean of the values of individual SPF.

Source: FSC.

In the supervision of PICs' operations with regard to the management of pension funds in 2019, no deviations from the statutory requirements were identified in terms of the amount of the mandatory fees and deductions paid to PICs.

In 2019, almost all PICs maintain the maximum allowable amounts of fees and deductions collected by a SMPF, according to the SIC. 3.75% deduction from each social security contribution and investment fee in the amount of 0.75% per annum, calculated on the value of the fund's net assets depending on the period during which they were managed.

One PIC has adopted a differentiated approach regarding the deductions from each insurance contribution for the SMPF managed by it, depending on the period of insurance of the person in the respective fund, namely reduction of their amount after a certain period of time.

Fees and deductions for management of the supplementary voluntary pension funds (SVPF), collected by the PIC, are in amounts lower than the statutory ones. The average amount of deduction from each social security contribution in VPF in 2019 and in 2018 is 2.8%, and in VPFOS it is 4.0%. The statutory maximum amount of deduction from each social security contribution in SVPF is 7.0%.

Table 64. Investment fee and social insurance contributions' fee to SVPFs

	2018	2019
Deducted investment fee of VPF	10.0	8.8
Deducted investment fee of VPFOS	0.0	10.0
Average amount of social insurance contributions' fee in VPF	2.8	2.8
Average amount of social insurance contributions' fee in VPFOS	4.0	4.0

Note: Data are in %, unless stated otherwise. The indicators are calculated as an arithmetic mean of the values of individual VPF and VPFOS.

Source: FSC.

The investment fee in VPF in 2019 amounts to 8.8% compared to 10.0% in 2018 with a statutory fee of up to 10%. While as of 31.12.2018 only one VPF reported positive investment income, as a result of which the investment fee was deducted for the management company, as at 31.12.2019 all VPFs reported positive investment income and the investment fee was deducted for all PICs. As of 31.12.2019, the VPFOS also reported a positive income from investments, and investment fee in the amount of 10.0% was deducted for the management company, while as at 31.12.2018, due to reported negative result by VPFOS, no investment fee was deducted.

2.4.2. Supplementary pension funds

In the reporting year, the amount of all SPF's balance sheet assets grew at a significantly faster pace than in the previous year 2018. In 2019, the SPF's balance sheet assets increased by 16.9% on an annual basis, while in 2018 the balance sheet assets of the SPFs increased by 5.7%.

The rate of change in assets is different by type of fund, with the largest increase of 17.9% observed in UPF, followed by the only operating VPFOS, with an increase of 14.3%. An increase in assets was also reported in OPF and VPF by 11.7% and 10.9%, respectively.

Table 65. Increase of SPFs' assets

	2018	2019
UPF	6.4	17.9
PPF	2.1	11.7
VPF	2.0	10.9
VPFOS	2.5	14.3

Note: Data are in %, unless stated otherwise. Indicators are calculated as a ratio between the change for the year and their condition in the beginning of the year.
Source: FSC.

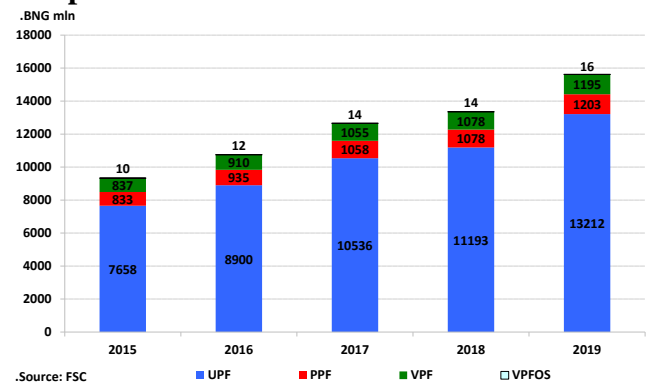
The market shares of the individual companies based on the amount of the managed balance sheet assets of the pension funds did not change significantly during the past year. The pension insurance company with the largest market share occupies 24.5% of the managed balance sheet assets, and the one with the smallest market share occupies 1.1%.

The structure of balance sheet assets by type of fund is strongly dominated by UPF. As of the end of 2019, the relative share of this type of funds is 84.6%. As a result of the higher growth rates of the balance sheet assets of UPF, their relative share in the total balance sheet assets of SPFs expands by 0.8 percentage points compared to 2018 at the expense of the shares of VPF and OPF. As of the end of 2019, the balance sheet assets of OPF, VPF and VPFOS occupy shares of 7.7%, 7.6% and 0.1%, respectively.

The observed trends in balance sheet assets are also reported for net assets. In 2019, the net assets of the SPFs increased by 16.9 % on an annual basis, which was significantly more than their growth in 2018 (5.5%).

As of the end of 2019, the net assets of SPFs amount to BGN 1.6 billion. They show the total value of liabilities to insured persons and are a key indicator of the state of the supplementary pension insurance system. The net assets accumulated at the end of 2019 amount to 13.2% of the volume of GDP⁵¹ of the country.

Graph 86. Net assets of the SPFs



The rate of increase of net assets differs by types of funds, the most significant being in UPF (18.0%), followed by VPFOS (14.4%), OPF (11.6%) and VPF (10.9%). The structure of net assets by types of pension funds at the end of 2019 does not differ significantly from that of balance sheet assets.

The average non-weighted amount of managed assets per participant in 2019 in UPFs was BGN 3,123.00 compared to BGN 2,714.72 in 2018, in OPFs – BGN 3,536.63 for 2019 compared to BGN 3,225.69 in 2018, in VPFs – BGN 1,774.91 for 2019 compared to BGN 1,697.21 in 2018, and in VPFOS – BGN 1,916.22 for 2019 compared to BGN 1,743.12 for the previous year. For all types of funds there was an increase in the managed assets per participant.

In terms of companies, there were different deviations from the average levels – in UPFs the managed assets per participant were between BGN 1,628.34 and 4,301.16, in OPFs – between 1,775.40 and BGN 4,511.39, and in VPFs – between BGN 715.58 and BGN 3,868.77. The average values of the indicator for individual PICs were between BGN 1,373.11 and BGN 3,925.12.

⁵¹ GDP for 2019 was BGN 118.7 billion, according to preliminary NSI data.

Table 66. Assets managed per participant in a SPFs

	2015	2016	2017	2018	2019
UPF	1961.9	2239.3	2581.8	2714.7	3123.0
PPF	2682.3	2918.2	3192.7	3225.7	3536.6
VPF	1409.8	1480.9	1696.3	1697.2	1774.9
VPFOS	1481.2	1631.9	1817.3	1743.1	1916.2

Note: Data are in BGN, unless stated otherwise. The indicators are calculated as an arithmetic mean of the values of individual SPF.
Source: FSC.

Gross revenues from social security contributions in SPFs in 2019 increased by 10.8% compared to revenues in 2018. The increase in revenues is due to a significant increase in revenues from social security contributions for UPF - by BGN 166.5 million or by 13.0% and at UPF - by BGN 10.6 million or by 9.6%. This growth is due both to the inclusion of newly insured persons in the labor market and to the reduction of unemployment in the country, as well as to the increase of the insurable income during the year. From the beginning of 2019, the minimum insurable income increased by 9.8% compared to 2018, reaching BGN 560, and the maximum insurable income increased by 15.4%, reaching BGN 3,000. Gross revenues from social security contributions in VPF in 2019 registered a decrease of BGN 11 million or by 7.6% compared to 2018. Revenues from social security contributions at VPFOSs remain practically unchanged. In general, the revenues from social security contributions in 2019 report the highest value for the last five years.

Table 67. Gross proceeds from social insurance contributions

	2015	2016	2017	2018	2019
UPF	1019.2	1083.9	1161.4	1285.0	1451.5
PPF	93.9	100.4	102.6	110.2	120.5
VPF	122.6	99.2	139.0	144.7	133.7
VPFOS	1.5	1.5	1.6	1.6	1.7
Total	1237.2	1285.0	1404.6	1541.5	1707.4

Note: Data are in BGN million, unless stated otherwise.
Source: FSC.

The amounts accrued and paid in 2019 increased compared to the previous year by 24.9%

in total for all SPFs. The main contribution to the dynamics of the accrued and paid amounts have the amounts paid by VPFs, whose share in the total value is 73.6% on average for the last five years. In the environment of a developing market of the supplementary mandatory pension insurance in Bulgaria, which is in the accumulation phase, the ratio "Paid amounts / received funds" amounts to 0.02 on average for the period 2015 - 2019, while in VPFs this ratio is 0.52 .

Table 68. Accrued and paid amounts

	2015	2016	2017	2018	2019
UPF	10.7	13.8	17.4	20.4	24.1
PPF	5.2	5.9	6.4	6.3	6.7
VPF	54.1	66.8	57.7	66.8	85.7
VPFOS	0.3	0.2	0.3	0.4	0.8
Total	70.3	86.7	81.8	93.9	117.3

Note: Data are in BGN million, unless stated otherwise.
Source: FSC.

The average value of the return ratio on managed assets in 2019 for UPFs and OPFs is 0.06, for VPFs it is 0.05, and for the only operating VPFOS, the indicator is 0.09. In 2018, the average value of the indicator for OPF and VPF is -0.03, for UPF it is -0.02, and for the only operating VPFOS, the indicator is -0.06. Compared to the previous year, the indicator increases for all types of funds. The values of the indicator for the individual PICs for 2019 are in the range between 0.03 and 0.09, which is conditioned by the achieved results for the income from investing the funds in all SPFs.

Table 69. Return on managed assets

	2015	2016	2017	2018	2019
UPF	0.03	0.05	0.06	-0.02	0.06
PPF	0.03	0.05	0.07	-0.03	0.06
VPF	0.03	0.05	0.07	-0.03	0.05
VPFOS	0.01	0.06	0.10	-0.06	0.09

Note: Data are in coefficients. The indicators are calculated as an arithmetic mean of the values of individual SPF.
Source: FSC.

In 2019, the participants in SPFs continue to increase compared to the previous year. In 2019, the increase is a total of 2.0%, and in 2018 it is

1.8%. The growth of the participants in 2019 by funds is as follows: for universal funds - growth of 2.0% (with growth of 1.7% in 2018), for occupational funds the growth is 2.2% in 2019 (compared to 1.6% in 2018), for voluntary funds the growth is 1.9% compared to 2.2 % in 2018, and the only operating VPFOS reports an increase in participants of 4.0% in 2019 compared to 6.9% in 2018. The PIC with the largest market share in terms of the number of participants in its managed SPF retains its position with 25.2%, and the company with the smallest market share occupies 1.8% of the market. The gradual decrease trend of the market share of the largest companies is preserved.

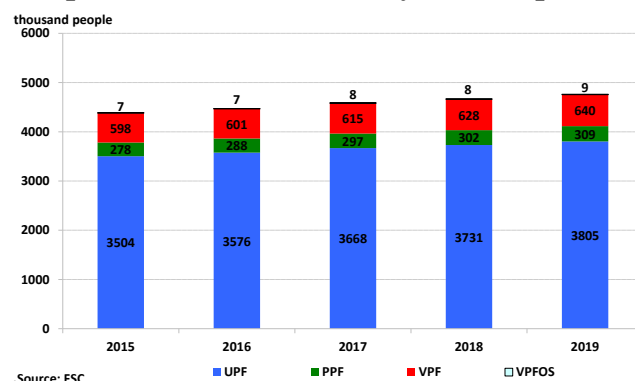
Table 70. Increase in the number of participants

	2018	2019
UPF	1.7	2.0
PPF	1.6	2.2
VPF	2.2	1.9
VPFOS	6.9	4.0

Note: Data are in %, unless stated otherwise. Indicators are calculated as a ratio between the change for the year and their condition in the beginning of the year.
Source: FSC.

Regarding the structure of distribution of insured persons between SPFs, no significant changes are observed compared to the previous year. At the end of 2019, the largest share of insured persons was concentrated in the universal pension funds (79.9%). The persons insured in the voluntary and occupational pension funds occupy respectively a share of 13.4% and 6.5% in the structure of distribution of the insured persons. The share of the insured in VPFOS remains the smallest (only 0.2%).

Graph 87. Number of socially insured persons



In 2019, still the majority of people who start their first job and should be insured in SMPF, do not exercise their right to choose a pension fund. The submitted individual applications for participation in UPF and OPF during the year are 10 867 and 1 599 respectively. The predominant part of the persons, who are subject to insurance in SMPF and have not made their choice, are distributed ex officio among the funds. In 2019, these are 82,659 persons, or 88.4% of the total number of persons admitted to UPF, and respectively 11,650 persons, or 87.9% of the total number of persons admitted to OPF.

During the year, a total of 217,500 people exercised their right to change their participation from one to another respective SMPF. Compared to the previous 2018, their number increased by 20.1%.

Funds transferred from the individual accounts of persons who changed their participation in supplementary pension funds in 2019 increased by a total of 34.5% compared to 2018 and amounted to BGN 722.3 million.

The dynamics of resources transferred depends both on the number of persons that took action to change their participation in SPFs during the year, and on the amount of resources in their individual accounts.

The increase is mainly due to the funds transferred to UPF, the amount of which is BGN 173.6 million or 36.3% higher than the previous

year. The OPF and VPF also reported an increase in the transferred funds, respectively 19.8% and 23.8% compared to the previous year. However, the amounts of the transferred funds in these two types of funds are smaller, as in 2019 they increase in absolute terms by BGN 10.8 million and BGN 1.0 million respectively.

Table 71. Amounts transferred from individual accounts

	2015	2016	2017	2018	2019
UPF	349.7	405.7	456.6	478.1	651.7
PPF	42.2	47.9	49.8	54.6	65.4
VPF	4.5	5.0	3.7	4.2	5.2
Total	396.4	458.6	510.1	536.9	722.3

Note: Data are in BGN million, unless stated otherwise.
Source: FSC.

The absolute value of invested resources of SPFs at the end of 2019 was BGN 14.4 billion, representing 91.9% of their balance sheet assets. The SPF's investments in 2019 continued to grow, and the reported growth during the year is 18.7%. The structural breakdown of funds invested by type of funds did not change significantly compared to 2018, with the highest share again being UPFs (84.3%), followed by OPF (7.8%), VPF (7.8%) and VPFOS (0.1%).

Between 2015 and 2019, the SPFs' investment portfolios were developing, following the dynamics of asset accumulation in the sector, the accumulated investment experience and the development of capital markets.

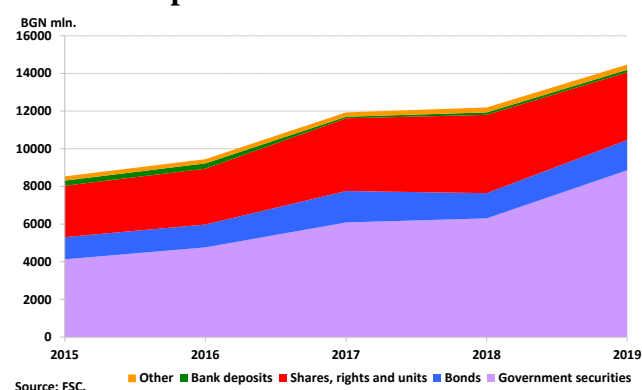
For a five-year period there is a steady trend of increasing the relative share of funds invested in government securities in the portfolios of SPFs, and at the end of 2019 it reached 61.2% of investments. Compared to the beginning of the period there is an increase in the relative share by 12.9 percentage points.

At the end of 2019, the relative shares of all other categories of investment instruments in the portfolios of SPFs are lower than at the beginning of the period under review. The most significant decrease is in the relative share of investments in

variable income instruments. From 32.0% in 2015 and a gradual increase to 34.1% in 2018, at the end of the five-year period this share was 24.9% of the invested funds. The reported decrease for the period 2015 - 2019 is 7.1 percentage points.

Although weaker in the other categories of instruments - bonds (corporate and municipal) and bank deposits - there is also a decline in their relative shares in the portfolios of SPFs. Funds invested in bonds shrank from 13.8% in 2015 to 11.1% in 2019 and bank deposits, which in 2015 formed 2.7% of the SPF investments, as of the end of 2019 represent 0.9% of the investment portfolio of pension funds.

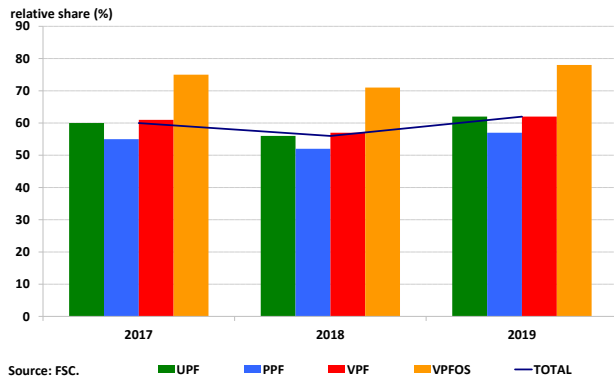
Graph 88. Structure of the aggregate investment portfolio



The relative share of the SPF's investments in financial instruments issued by issuers outside the Republic of Bulgaria at the end of 2019 reached 61.7% of their balance sheet assets. Compared to the end of the previous year, there was an increase in the relative share of these investments by 6.0 percentage points.

At the end of 2019, the structure of investments in financial instruments issued by issuers outside the country was dominated by government securities with a share of 70.2%. Variable income securities accounted for 19.7% of investments in financial instruments issued by issuers outside the country, and the remaining 10.1% were invested in corporate and municipal debt securities.

Graph 89. Investments abroad as a percentage of SPFs' balance sheet assets



The main objective of pension fund asset management was to increase the long-term value of their assets by achieving return on their

investment. The rate of return of the SPFs' asset management was influenced by the capital market trends in which the assets were invested, which was why temporary declines in the indicator values were possible. After the negative rate of return reported in 2018, in 2019 the SPCs reported high values of weighted average rate of return.

Table 72. Weighted average rate of return

	2015	2016	2017	2018	2019
УПФ	1.5	4.1	6.3	-4.2	6.5
ППФ	1.8	4.5	6.5	-3.6	5.8
ДПФ	1.7	5.2	7.5	-4.6	6.5
ДПФПС	0.8	4.8	9.3	-5.9	8.8

Note: Data are in %, unless stated otherwise. *Wighted by the value of the net assets of individual funds.

Source: FSC.

III. Organisational structure of FSC

