

*Translation from Bulgarian language*



**FINANCIAL SUPERVISION COMMISSION**

**ANNUAL REPORT  
FOR THE ACTIVITY OF  
THE FINANCIAL  
SUPERVISION  
COMMISSION  
2021**

### **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  
SSPE – Securitisation Special Purpose Entity  
CF – Contractual Fund  
TFEU – Treaty on the Functioning of the European Union  
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  
CISOU CIA – 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  
IFRS - International Financial Reporting Standard  
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  
STS - simple, transparent, standardised  
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  
ORS - own risk and solvency  
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  
CMU - Capital Markets Union  
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  
OECD - Organisation for Economic Co-operation and Development  
HHI – Herfindahl-Hirschman index

#### **Useful links**

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

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## **ADDRESS OF THE CHAIR**

Dear Ladies and Gentlemen,

This is the 2021 Annual Activity Report of the Financial Supervision Commission.

In 2021, the Financial Supervision Commission continued to work for sustainable stability of the insurance market in Bulgaria, for the introduction of innovations and the improvement of the capital market regulations, as well as for absolute strictness and complete transparency of the actions and processes of the pension insurance market. The year was marked by social and economic upheaval and challenges on a global scale – the extremely dynamic situation of the Covid pandemic, accelerated global digitalisation, adoption of the European Green Deal – key for the economy and the environment, and the path to the Euro area. In this set of trends, the Commission continued to pursue an extremely active policy, supported by the sequence of specific actions, both in terms of protecting the users of the non-banking financial services and the potential investors and the new participants in the capital markets.

Over the past year, we have upgraded the established sustainable environment, which in our understanding implies a continuous process of strict, timely and adequate control over market participants regarding their compliance with regulatory requirements. Under the conditions of intensive, open, and transparent dialogue with the competent authorities, institutions, professional organisations, and supervised entities, we imposed a new organisational culture and communication based on the principles of responsibility, transparency, efficiency, objectivity, and impartiality. In its daily work, the Commission integrates values such as trust, professionalism, predictability, and consistency, which naturally led to the strengthening of the supervisory authority as a guarantor of the stability of the insurance market. As a result, the Financial Supervision Commission adopted and brought into line with the changes to the Social Insurance Code a total of 22 (twenty-two) regulations (ordinances), and the pension insurance companies converted and created the relevant reserves and brought their capital into line with the regulatory requirements, which guarantees the successful and smooth start of the pay-out phase in the universal pension funds.

The year of 2021 was also distinguished by the digitalisation of a number of key processes, the confirmation of the positive interrelationship between innovation and financial technologies, which in turn changed the appearance of the standard consumer behaviour and thinking. As a cause and effect, this process led to new opportunities to optimise familiar business models. At the same

time, we, the participants in the financial sector, were tasked with analysing and predicting potential risks in this dynamically changing environment. Namely in this regard, FSC has focused its activity on the balance between the promotion of innovation by companies with an investment objective and the protection of consumers from the negative aspects that the new online space implies.

The ultimate goal that FSC has set is to reduce the administrative burden by achieving synchronisation between the regulatory requirements and their implementation in a digital environment, and it had a key role in provoking this extremely useful and important process. The already operational Innovation Hub, providing a single point of contact with fintech companies and the amended regulations for accessibility to the capital markets of small and medium-sized enterprises are part of the specific results achieved.

In addition to the digitalised process, in the spring of 2021 FSC publicly presented the project „Building a unified information system (UIS) for the needs of the Financial Supervision Commission“, for the implementation of the main goals arising from the Updated strategy for electronic government in the Republic of Bulgaria for the period 2019 - 2023. The project is performed according to Administrative Contract No. BG05SFOP001-1.011-0001-C01/23.07.2020 for the provision of a grant under the Operational Program “Good Governance” (OPGG), co-financed by the European Union through the European Social Fund under the procedure BG05SFOP001-1.011 by directly providing a grant concluded between the OPGG Managing Authority and the Financial Supervision Commission.

The unified information system is planned to be completed by the fall of 2023. With its introduction the process for administrative services to citizens and businesses will be improved by upgrading all the administrative services that FSC offers and are part of the state administration system (IISSA or Administrative Register), and the real-time exchange of information with the EU supervisory authorities - European Insurance and Occupational Pensions Authority (EIOPA) and European Securities and Markets Authority (ESMA) – will be enabled.

The European requirements and the peculiarities of the national market are the starting points in which the Commission develops its regulatory framework and supervisory activity.

One of the leading topics for 2021 is the so-called „Green Deal“, in the context of ecology, social responsibility and transparent governance. In accordance with the objectives of the European Union, the Financial Supervision Commission supported the targeting of national and

European sources for financing a sustainable economy, the planning of instruments for business recovery after crises, as well as the balanced regional development of the country.

FSC is one of the main participants in the creation of the National Plan for the Introduction of the Euro in Bulgaria, developed by the Coordination Council for Preparation of the Republic of Bulgaria for Euro Area Membership with good practices followed by its member states. Preparations for Bulgaria's accession to the Euro area have a target date of 1 January 2024. The vision of FSC for this key process for the Bulgarian economy includes the systematisation of the necessary measures and actions in connection with the conversion of financial instruments. We intend to carry out the necessary monitoring of the expected stages for the adaptation of the clearing and settlement systems to work with the euro. In 2021, the Commission started with a preliminary analysis of the requirements, respectively coordination of readiness to adapt information systems, accounting, financial and non-financial information of the supervised entities. At the same time and with equal importance, in addition to preparing the markets, the Commission will continue to carry out an active communication campaign, specifically targeting the expected changes for consumers, to familiarise them with the advantages of adopting the single European currency.

Regarding the regulatory activity, FSC actively participates in the inter-institutional preparation of systemically significant changes in the regulatory framework, namely: the Act to Amend and Supplement the Collective Investment Schemes and Other Undertakings for Collective Investments Act (Prom. SG, issue 12 of 12.02.2021 and issue 21 of 12.13.2021), the Act to Amend and Supplement the Markets in Financial Instruments Act (Prom. SG, issue 12 of 12.02.2021 and issue 21 of 12.13.2021), the Act to amend and supplement the Recovery and Resolution of Credit Institutions and Investment Firms Act (Prom. SG, issue 12 of 12.02.2021) etc. Amendments were also made to the Social Insurance Code.

The results of the amendments in the legal framework are in several directions. The Act to Amend and Supplement the Collective Investment Schemes and Other Undertakings for Collective Investments Act transposes into the national legislation the requirements of Directive (EU) 2019/1160 of the 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, and introduces measures to implement the requirements of Regulation (EU) 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 („Regulation (EU) 2019/1156“) and Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector. The adopted amendments are aimed at improving the cross-border offering of units and shares of undertakings for collective investment in transferable securities.

In the implementation of its development strategy, FSC invested efforts to prepare 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: strengthening financial stability; higher level of investor protection, etc. In the field of financial markets, regulations were transposed according to Directive (EU) 2019/2034 of the 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; Directive (EU) 2019/878 of the 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 amendments in the by-laws and regulations aim at their adaptation to the adopted legal amendments and introduction of the best international practices.

In the field of capital markets and within the framework of the goals set for a stable capital market in Bulgaria, in 2021, 1 licence was issued to operate as an investment firm (IF) and one licence of an IF was revoked as a result of a voluntary withdrawal of a licence.. At the beginning of the reporting year, 1 procedure for issuing an IF licence, initiated in 2020, was terminated. Also, 28 applications for approval of the election of a member of the management or supervisory body of an investment firm were considered and no refusal was issued. A significant part of the proceedings are related to the need to bring existing the IFs in line with the applicable regulations by simultaneously applying the requirements of the MFIA and the CA, and in 2021 a large part of the IFs have already completed that process. In 2021, 1 proceeding was considered for the approval of changes to the Regulations for the activities of Central Depository JSC. FSC revoked 1 licence of a management company as a result of a voluntary withdrawal. In 2021, 2 permits were issued for an MC to organise and manage a MF, one of which was for an umbrella fund with 10 sub-funds, 2 permits were issued for conversion of MFs. Additionally, in 2021, 10 decisions were issued to de-register MFs from the registers maintained by FSC, some of which merged into

another as a result of decisions issued in 2020 and 2021 authorising the termination or transformation of mutual funds. In 2021, 1 new licence has been issued for operating as a real estate special purpose investment company, and no refusals for a licence to SPICs have been issued. In 2021, 3 licences for operating as special purpose investment companies (for investments in real estate) were revoked as a result of an explicit voluntary withdrawal and completed redemptions of the companies' shares.

In the field of Insurance and reinsurance, during the reporting year, 1 decision was issued for the conversion of an insurance company. In 2021, 3 decisions were issued for approval of the acquisition of qualifying holdings in insurance companies: FSC issued 12 decisions on the application of the regulatory regimes under the Insurance Code to insurers with revoked licences:

In the field of supplementary pension insurance, in the reporting year 2021, as a result of an application received from a pension insurance company (in the process of being established), FSC issued a decision to issue a pension licence and decisions to issue permits for the management of a universal, a professional and a voluntary pension fund (for each fund separately). During the reporting period there were no requests for transformation of pension insurance companies and/or supplementary pension funds or payment funds, for voluntary winding-up of existing companies, and FSC did not establish grounds to withdraw issued pension licences.

In an environment of dynamic development of the market of financial innovations worldwide, including at European level, and in implementation of the Financial Technology (FinTech) Monitoring Strategy in the non-banking financial sector (2021 - 2024), in 2021 the Financial Supervision Commission took a number of initiatives to 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.

FSC continues to build on what has been achieved so far in terms of creating an innovation-friendly business environment, with an emphasis on the need for collaboration between regulators and business to create a developed fintech ecosystem.

As a continuation of its consistent policy with regard to innovation through the new Financial Innovation Monitoring Strategy for the period 2021-2024, the Commission has started an active partnership with the Bulgarian Fintech Association and representatives of business organisations with expressed interest in stimulating the development of financial innovations in the non-banking sector.

At a special meeting initiated by the Commission with the Bulgarian Fintech Association, the main lines of action were outlined and concrete steps were set out to support the development of innovative solutions in the non-banking financial sector in Bulgaria: development of financial literacy of users of financial services and investors, using the participation of experts from the Commission in master's programs and training innovation camps with students; participation of representatives of the regulator in local and international BFA webinars; regular meetings with fintech companies in order to provide feedback on the assessment of possible risks for both the market and consumers, as well as potential actions and measures, with a view to minimising them in order to derive maximum benefits from the growing interest in financial innovative products and/or technologies at compliance with regulatory requirements; promoting and encouraging the use of the already operational Innovation Hub, which improves quick and easy access to information for start-ups and on issues and cases of regulatory and legal nature.

We have started research and preparation for the introduction of a regulatory Sandbox for the non-banking financial sector which will allow FinTech companies to test their products in a real and secured environment, and the supervisor to monitor that process to optimally adapt regulations concerning digital finance.

FSC continued its active positioning on the map of European regulators. As a participant in the European System of Financial Supervision (ESFS), FSC is strongly involved in the activities of the European supervisory authorities (ESMA and EIOPA) in order to associate the Bulgarian non-banking sector to the single European financial market.

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.

FSC's cooperation with international organisations and financial institutions is a significant aspect of the regulator's activity which becomes even more important in the context of globalised financial markets. The Commission is a member of the three international organisations which issue standards in the sector of securities, insurance, and pension insurance, namely the

International Organisation of Securities Commissions – IOSCO, the International Association of Insurance Supervisors – IAIS and the International Organisation of Pension Supervisors – IOPS.

In 2021, FSC also concluded a bilateral memorandum for cooperation purposes under AIFMD with the Astana Financial Services Authority (AFSA) in Kazakhstan. The MoU was concluded as a result of negotiations held in 2020 between ESMA and AFSA and a Decision of ESMA's Board of Supervisors all EU countries to conclude bilateral MoUs with AFSA. AFSA is a regulatory authority that is also an associate member of IOSCO. AFSA has a special status and jurisdiction over the Astana International Financial Centre (AIFC), which includes the area within the city of Nur-Sultan (Astana), designated by the President of the Republic of Kazakhstan as an area in which a special legal regime applies in the financial sector, established by the Constitutional Act of the Republic of Kazakhstan for AIFC.

In the past year, FSC continued its participation in the process of accession of the Republic of Bulgaria to the Organisation for Economic Cooperation and Development (OECD). At present, accession is defined as an important goal of the foreign policy of the Republic of Bulgaria. FSC exchanges information with the Ministry of Foreign Affairs, in its capacity as the national coordinator for cooperation with OECD.

Representatives of FSC are members of several interdepartmental working groups that are involved in specific stages of the accession process. The Commission regularly submits insurance and pension statistics to the OECD, and actively participates in the meetings and written procedures of the 2, in which Bulgaria currently has a „guest“ status. Representatives of the Bulgarian supervisory authority are an important part of the work of the Financial Markets Committee.

The proactive policy of the regulator for protection of consumers of non-banking financial services led to 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, 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, helped to increase the financial culture and create preconditions for awareness in the choice of financial services by consumers.

In 2021, FSC launched the digital campaign #InvestSafely, aimed at protecting consumers from unlicensed investment firms. Thus, the Commission took another digital step in its communication to give basic guidelines on how consumers can distinguish legitimate from fraudulent investment firms. The campaign was launched with a dedicated website, available in both Bulgarian and English. #InvestSafely was also rolled out on social media, YouTube and LinkedIn, with attractive visual content created with own resources.

Structurally, the presented report consists of two parts. The first part outlines the activities of FSC pursuant to its competencies as the regulatory and supervisory authority 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 2021.

The challenge in the past year provoked our vigilance even more. Enhancing the consumer protection and encouraging investors as well as ensuring a stable, regulated and transparent non-banking sector, is what focuses us as much as possible in achieving that goal. The step taken to carry put the change included long-term planning, a strong expert team and determination to implement innovation in the field of digitalisation and regulations to stimulate the capital market. The constructive dialogue with all interested parties and the active communication with the business allowed the participants in the processes regulated by FSC to be as efficient as possible. Predictability in our actions and our objectivity in decision-making through sustainable concepts and strategies are and remain an important part both for the development of the Bulgarian capital, insurance, and pension insurance markets, and for the development of the Bulgarian economy as a whole.

Thank you for your confidence!



# **I. FSC'S ACTIVITY IN 2021**

## **1. Regulatory activities**

### **1.1. Amendments to the regulatory framework**

In 2021, the following bills pertaining to the Financial Supervision Commission were adopted:

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

The amendments in the act transpose into national law the requirements of Directive (EU) 2019/1160 of the 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, and introduce measures to implement the requirements of Regulation (EU) 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 ("Regulation (EU) 2019/1156") and Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector. The adopted changes are aimed at improving the cross-border offering of units and shares of collective investment undertakings in transferable securities.

#### **Act to Amend and Supplement the Markets in Financial Instruments Act**

The changes in the act transpose the requirements of:

- 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;
- 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;
- 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
- Directive (EU) 2019/2177 of the European Parliament and of the Council of 18.12.2019 amending Directive 2009/138/EC on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II), Directive 2014/65/EU on markets in financial instruments and Directive (EU) 2015/849 on the prevention of the use of the financial system for the purposes of money-laundering or terrorist financing.

#### **Act to Amend and Supplement the Public Offering of Securities Act**

The changes in the Public Offering of Securities Act result from the following acts of the European Union:

- Regulation (EU) of the European Parliament and of the Council of 7 October 2020 on European crowdfunding service providers for business, and amending Regulation (EU) 2017/1129 and Directive (EU) 2019/1937
- Directive (EU) 2021/338 of the European Parliament and of the Council of 16.02.2021 amending Directive 2014/65/EU as regards information requirements, product governance and position limits, and Directives 2013/36/EU and (EU) 2019/878 as regards their application to investment firms, to help the recovery from the COVID-19 crisis.

### **Special Purpose Investment Companies and Securitisation Companies Act**

The Special Purpose Investment Companies and Securitisation Companies Act updates the legal framework in the field of existing companies investing in real estate and receivables, and introduces measures to implement the requirements of Regulation (EU) 2017/2402 of the European Parliament and of the Council of 12 December 2017 laying down a general framework for securitisation and creating a specific framework for simple, transparent and standardised securitisation, and amending Directives 2009/65/EC, 2009/138/EC and 2011/61/EU and Regulations (EC) No 1060/2009 and (EU) No 648/2012 (OJ L 347/35 of 28.12.2017).

### **Act to amend and supplement the Social Insurance Code**

The amendments to the Social Insurance Code regulate:

- the rights of insured persons, pensioners, and their heirs, including the conditions for payment, the types of payments and the method of determining their amount, the methods of updating and recalculating the additional lifelong pensions for old age and deferred payments;
- the allocation and coverage of risks and the financial model in the pay-out phase, incl. legal status of payment funds (lifelong pension payment fund and deferred payment fund) and requirements for their investments, accounting and reporting, as well as with regard to the formation of a reserve to guarantee the gross amount of transferred insurance contributions in the universal pension funds and reserve to guarantee the payment of lifelong pensions and the requirements for them;
- developing the regulation of supervisory measures, conversion, termination, and bankruptcy, as well as specifying a number of provisions.

### **Act to amend and supplement the Recovery and Resolution of Credit Institutions and Investment Firms Act**

The changes make amendments to the national legal framework for the resolution of credit institutions and investment firms, which fulfil the commitments to implement the requirements of Directive (EU) 2019/879 of the European Parliament and of the Council of 20 May 2019 amending Directive 2014/59/EU as regards the loss-absorbing and recapitalisation capacity of credit institutions and investment firms and Directive 98/26/EC (OJ L 150 of 7.06. 2019.) The changes are mainly aimed at creating guarantees that institutions have sufficient loss-absorbing and recapitalisation capacity to ensure that during and immediately after the restructuring, institutions



will be able to continue to perform their critical functions without being exposed at risk public finances and financial stability being exposed to risk.

### **Amendments in the by-laws and regulations**

In 2021, the Financial Supervision Commission adopted the following regulations, which were promulgated in the State Gazette:

Ordinance No. 11 of 03.12.2003 on licences for operating as a regulated market, market operator, for organizing a multilateral trading facility or an organised trading facility, for operating as an investment firm, investment company, management company, special purpose investment company, sovereign fund, alternative investment fund manager and data reporting service provider<sup>1</sup>;

Ordinance No. 7 of 27.05.2021 on the procedure for acquisition, recognition, and revocation of legal capacity of financial instrument brokers and investment consultants<sup>2</sup>;

Ordinance No. 15 of 2005 on keeping and storing registries by the Financial Supervision Commission and the circumstances subject to entry<sup>3</sup>;

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 State and for registration of professional training materials<sup>4</sup>;

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<sup>5</sup>;

Ordinance No. 38 of 21.05.2020 on the requirements to the activities of investment firms<sup>6</sup>;

Ordinance No. 39 of 21.11.2007 on disclosure of shareholding in a public company<sup>7</sup>;

Ordinance No. 12 of 10.12.2003 on the manner and procedure for determining the minimum yield when managing the assets of supplementary mandatory pension insurance funds, for covering the difference to the minimum yield and for forming and using the reserves to guarantee the minimum yield<sup>8</sup>;

Ordinance No. 68 of 10.06.2021 on the reserves of pension insurance companies to guarantee the gross amount of contributions to universal pension funds<sup>9</sup>;

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<sup>1</sup> Prom. SG issue 8 of 29.01.2021

<sup>2</sup> Prom. SG issue 48 of 08.06.2021

<sup>3</sup> Prom, SG issue 48 of 08.06.2021, SG, issue 60 of 20.07.2021, SG, issue 97 of 19.11.2021.

<sup>4</sup> Prom, SG issue 48 of 08.06.2021.

<sup>5</sup> Prom, SG issue 48 of 08.06.2021, SG, issue 60 of 20.07.2021.

<sup>6</sup> Prom. SG issue 48 of 08.06.2021, SG, issue 68 of 17.08.2021.

<sup>7</sup> Prom. SG issue 48 of 08.06.2021.

<sup>8</sup> Prom, SG issue 52 of 22.06.2021.

<sup>9</sup> Prom. SG issue 52 of 22.06.2021.

Ordinance No. 69 of 15.06.2021 on the technical interest rates under Art. 169, para. 1, item 3 and para. 8, item 3 of the Social Insurance Code and the formulas for calculating the supplementary lifelong old-age pensions<sup>10</sup>;

Ordinance No. 3 of 24.09.2003 on the procedure and manner of changing participation and transferring the accumulated funds of an insured person from one supplementary pension insurance fund to another corresponding fund managed by another pension insurance company<sup>11</sup>;

Ordinance No. 33 of 19.09.2006 on individual applications for participation in supplementary mandatory pension insurance fund and for the resumption of insurance in a universal pension fund (Title amended – SG, issue 62 of 2016, effective from 15.08.2016)<sup>12</sup>;

Ordinance No. 47 of 11.07.2012 on the requirements to the activities of investment firms<sup>13</sup>;

Ordinance No. 52 of 21.10.2016 on the order and manner of deduction of fees under Art. 201, para. 1, items 2 and 3 and Art. 256, para. 1, item 3 of the Social Insurance Code, collected by the pension insurance companies (Title amended - SG, issue 31 of 2018, effective from 19.11.2018; amended issue 55 of 2021)<sup>14</sup>;

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<sup>15</sup>.

Ordinance No. 63 of 8 November 2018 on the requirements for the content, periodicity of preparation and deadlines for submission of reports for supervisory purposes of pension insurance companies and the funds managed by them<sup>16</sup>;

Ordinance No. 9 of 19.11.2003 on the manner and procedure for assessing the assets and liabilities of a pension insurance company and the funds managed by it, the value of the net assets of the funds, for calculating and announcing the value of one unit, for calculating and comparison of the yield from investment properties and the requirements for keeping individual lots and analytical accounts in a fund for deferred payments (Title amended - SG, issue 94 of 2018, effective from 19.11.2018; amended issue 59 of 2021)<sup>17</sup>;

Ordinance No. 10 of 29.06.2021 on the requirements for the solvency margin and own funds of the pension insurance company, its recovery program and the minimum liquid assets of the company and the funds managed by it<sup>18</sup>;

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<sup>19</sup>;

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<sup>10</sup> Prom. SG issue 53 of 25.06.2021.

<sup>11</sup> Prom. SG issue 54 of 29.06.2021, SG, issue 58 of 13.07.2021.

<sup>12</sup> Prom. SG issue 54 of 29.06.2021.

<sup>13</sup> Prom. SG issue 55 of 02.07.2021

<sup>14</sup> Prom. SG issue 55 of 02.07.2021

<sup>15</sup> Prom. SG issue 55 of 02.07.2021

<sup>16</sup> Prom. SG issue 58 of 13.07.2021, SG, issue 80 of 24.09.2021

<sup>17</sup> Prom. SG issue 59 of 16.07.2021

<sup>18</sup> Prom. SG issue 59 of 16.07.2021

<sup>19</sup> Prom. SG issue 59 of 16.07.2021

Ordinance No. 19 of 08.12.2004 on pension reserves and reserves for guaranteeing the payment of lifelong pensions (Title amended - SG, issue 60 of 2021)<sup>20</sup>;

Ordinance No. 29 of 12.07.2006 on the minimum level of credit ratings of banks and on determining the countries, international financial organisations, markets, and indices of these markets according to Art. 176, para. 2 of the Social Insurance Code (Title amended - SG, issue 94 of 2018, effective from 19.11.2018)<sup>21</sup>;

Ordinance No. 34 of 04.10.2006 on the conditions for concluding transactions to reduce the investment risk related to the assets of a supplementary pension insurance funds and the payment funds and on the requirements and restrictions to these transactions (Title amended issue 60 of 2021)<sup>22</sup>;

Ordinance No. 48 of 20.03.2013 on the requirements for remunerations<sup>23</sup>;

Ordinance No. 59 of 04.04.2018 on the functions and duties of the units, services and persons carrying out risk management, internal control and internal audit in pension insurance companies<sup>24</sup>;

Ordinance No. 60 of 02.05.2018 on the requirements for the documents under Art. 122a, para. 1, items 6 and 11, under Art. 145, para. 1, items 4, 8, 9 and 11 and under Art. 218, para. 2, items 3, 7, 8 and 11 of the Social Insurance Code for the issuance of a pension licence and permission to manage a pension fund (Title amended - SG, issue 60 of 2021)<sup>25</sup>;

Ordinance No. 62 of 30.10.2018 on the procedure for storage, use and destruction of documents and data related to the activity of supplementary pension insurance by pension insurance companies<sup>26</sup>;

Ordinance No. 64 of 29.11.2018 on the requirements for persons under Art. 344, para. 2, item 2 of the Social Insurance Code and the order and manner of their appointment<sup>27</sup>;

Ordinance No. 70 of 29.06.2021 on the requirements to payment funds<sup>28</sup>;

Ordinance No. 8 of 03.09.2020 on the requirements to the activity of the central securities depositories, the central securities register and other persons carrying out activities related to the settlement of securities<sup>29</sup>;

Ordinance No. 71 of 22.07.2021 on the requirements for the governance system of insurers and reinsurers<sup>30</sup>;

Ordinance No. 5 of 15.10.2003 on operating as an insurance broker and insurance agent<sup>31</sup>;

Ordinance No. 32 of 13.09.2006 on the requirements for the organisation and activity of the internal control service of insurers, reinsurers and persons included in an insurance or

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<sup>20</sup> Prom. SG issue 60 of 20.07.2021.

<sup>21</sup> Prom. SG issue 60 of 20.07.2021.

<sup>22</sup> Prom. SG issue 60 of 20.07.2021.

<sup>23</sup> Prom. SG issue 60 of 20.07.2021, SG, issue 64 of 03.08.2021

<sup>24</sup> Prom, SG issue 60 of 20.07.2021.

<sup>25</sup> Prom. SG issue 60 of 20.07.2021.

<sup>26</sup> Prom. SG issue 60 of 20.07.2021.

<sup>27</sup> Prom. SG issue 60 of 20.07.2021.

<sup>28</sup> Prom. SG issue 60 of 20.07.2021.

<sup>29</sup> Prom. SG issue 62 of 27.07.2021

<sup>30</sup> Prom. SG issue 64 of 03.08.2021

<sup>31</sup> Revoked SG issue 64 of 03.08.2021

reinsurance group (Title amended - SG, issue 4 of 2010)<sup>32</sup>;

Regulations for the organisation and operation of the Guarantee Fund<sup>33</sup>;

Ordinance on the custodian and advisory councils of the supplementary pension insurance funds and payment funds (Title amended – SG, issue 85 of 2021)<sup>34</sup>;

Ordinance No. 2 of 09.11.2021 on initial and subsequent disclosure of information during public offering of securities and admission of securities to trading on a regulated market<sup>35</sup>.

In 2021, FSC has pledged to observe in its supervisory practice the following 9 guidelines issued by the European Securities and Markets Authority:

Guidelines for the scenarios used in the stress tests under the MFF Regulation;

Guidelines on marketing communications under the Regulation on cross-border distribution of funds;

Guidelines on written agreements between members of CCP colleges;

The final Guidelines on the MiFID II/MiFIR market data obligations;

Guidelines on disclosure requirements under the Prospectus Regulation;

Guidelines on certain aspects of the MIFID II compliance function requirements;

Guidelines on reporting under Articles 4 and 12 of the Securities Financing Transactions Regulation;

Guidelines for Outsourcing Cloud Service Providers;

Guidelines on Article 25 of Directive 2011/61/EU.

In 2021, FSC has stated that it will observe in its supervisory practice the following guidelines issued by the European Insurance and Occupational Pension Authority:

The Guidelines on the supervisory reporting for Pan-European Personal Pension Product (PEPP);

Guidelines on Information and Communication Technology Security and Governance

In 2021, FSC has stated that it will observe in its supervisory practice the following guidelines issued by the European supervisory authorities:

Guidelines for Anti-Money Laundering and Anti-Terrorist Financing Colleges.

In 2021, FSC has stated that it will observe in its supervisory practice the following guidelines issued by the European Banking Authority:

Guidelines on Article 17 and Article 18, paragraph 4 of Directive (EU) 2015/849 on customer due diligence 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 to repeal and replace Guidelines JC/2017/37

## **1.2. New aspects of EU policy**

### **Regulations and Directives of the European Union**

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<sup>32</sup> Revoked SG issue 64 of 03.08.2021

<sup>33</sup> Prom. SG issue 71 of 27.08.2021

<sup>34</sup> Prom. SG issue 85 of 12.10.2021

<sup>35</sup> Prom. SG issue 97 of 19.11.2021.

**I. Regulations published in the Official Journal of the EU:**

**REGULATION (EU) 2021/23 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 16.12.2020 on a framework for the recovery and resolution of central counterparties and amending Regulations (EU) No 1095/2010, (EU) No 648/2012, (EU) No 600/2014, (EU) No 806/2014 and (EU) 2015/2365 and Directives 2002/47/EC, 2004/25/EC, 2007/36/EC, 2014/59/EU and (EU) 2017/1132**

The regulation defines the rules and procedures related to the recovery and resolution of central counterparties (CCPs) licensed in accordance with Regulation (EU) No. 648/2012, and the rules related to agreements with third countries in the field of recovery and resolution of CCPs. Each Member State must designate one or more resolution authorities empowered to apply the resolution tools and exercise the resolution powers provided for in this Regulation. Member States where there is no established CCP may apply a derogation from the requirements in paragraph 3 of Article 3, except in relation to arrangements to avoid conflicts of interest.

The Regulation shall apply from 12.08.2022 with the exception of the provisions referred to in Art. 97. The regulation amends five EU directives.

**REGULATION (EU) 2021/168 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 10 February 2021 amending Regulation (EU) 2016/1011 as regards the exemption of certain third-country spot foreign exchange benchmarks and the designation of replacements for certain benchmarks in cessation, and amending Regulation (EU) No 648/2012**

The regulation was adopted with the aim of protecting companies on the territory of the EU from adverse changes in foreign exchange rates that cannot be easily converted into a base currency or of currencies that are subject to exchange controls by entering into non-delivery currency derivatives such as forwards and swaps. Given the need to ensure a level playing field for the application of this Regulation, implementing powers are conferred on the European Commission (EC) to establish a replacement benchmark in order to replace all references to that benchmark in contracts and in financial instruments as defined in the Directive 2014/65/EU, which have not been renegotiated as of the date of application of the implementing act. The EC can exercise its executive powers only in cases where it has judged that the final or gradual termination of a benchmark could cause negative consequences leading to significant disruptions in the functioning of financial markets or the real economy in the Union. The EC has the power to establish spot currency benchmarks to be administered by administrators located outside the Union, subject to the specified prerequisites. The national competent authorities of a Member State where the majority of input providers are located shall be empowered to establish one or more options to replace a given benchmark under certain conditions.

This Regulation has become effective on the day following its publication in the Official Journal of the European Union, i.e. on 13.02.2021.

**Regulation (EU) 2021/337 of the European Parliament and of the Council of 16 February 2021 amending Regulation (EU) 2017/1129 as regards the EU Recovery prospectus and targeted adjustments for financial intermediaries and Directive 2004/109/EC as regards**

## **the use of the single electronic reporting format for annual financial reports, to support the recovery from the COVID-19 crisis**

The changes to the prospectus regime in the Regulation aim to enable companies to access new financing in a short period of time and to support the economic recovery from the COVID-19 pandemic. The amendments to the regulation are related to the creation of a new type of short-form prospectus (hereinafter referred to as the “EU recovery prospectus”), as well as to as well as targeted amendments to release pressure on financial intermediaries (notification of supplements and non-equity issuances by credit institutions).

- **EU Recovery Prospectus;**

The purpose is to provide issuers whose securities are admitted to trading on a regulated market with simplified disclosure rules and to be available only to issuers of secondary issues of shares. Provided that issuers have shares already admitted to trading on a regulated market or an SME growth market continuously for at least the last 18 months, the relaxed disclosure is expected to reduce the costs of preparing a prospectus and make the document easier to understand. The deadline for the approval of the EU recovery prospectus is reduced to 7 working days to enable issuers to quickly take advantage of capital raising opportunities. This new type of prospectus will also benefit from the single EU passport of approved prospectuses for cross-border offering and admission to trading.

- **Changes to the reduction of the burden on financial intermediaries- additions to the prospectus;**

Financial intermediaries should only inform investors who have purchased and subscribed for securities through them of the possibility of publishing a supplement, provided that the purchase or subscription was agreed between the approval of the prospectus and the expiry of the offering period or the time when trading on the regulated market has commenced, whichever occurs later. After the publication of an addendum, the financial intermediary must contact only the investors who can benefit from the right of withdrawal. The proposal also extends the period in which the financial intermediaries should contact the investors, namely up to 1 working day from the publication of the addendum. In order to maintain a high level of investor protection, the period during which the right of withdrawal can be exercised by investors is extended from 2 to 3 working days from the publication of the addendum. The measure will be applied until 31.12.2022.

- **Non-equity securities issued by credit institutions;**

The threshold is increased for the offering of non-equity securities that are issued with a certain duration or frequency by a credit institution, under certain conditions without the obligation to publish a prospectus, if the total value is less than EUR 150 million per credit institution for a period of 12 months. The aim is to support the financing of credit institutions at the recovery stage by increasing the threshold for the release of the prospectus for certain types of securities offerings, which is why this measure also applies until 31.12.2022.

This Regulation has become effective on the twentieth day following that of its publication in the Official Journal of the European Union, i.e. on 19.03.2021.

**REGULATION (EU) 2021/557 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 31 March 2021 amending Regulation (EU) 2017/2402 laying down a general**

## **framework for securitisation and creating a specific framework for simple, transparent, and standardised securitisation to help the recovery from the COVID-19 crisis**

The regulation was adopted due to the economic shock caused by the COVID-19 crisis and the necessary emergency counter-epidemic measures leading to large-scale consequences for the economy. Given the risk of an increase in the number of non-performing exposures, there is an additional need for institutions to manage and deal with their non-performing exposures. One way to do this is to trade own non-performing exposures in the market through securitisation. At the same time, the aim is to remove the risks for the systemically significant parts of the financial system and strengthen the capital positions of creditors. The synthetic securitisation regulated by the Regulation is one way to achieve this goal, as well as the raising of new equity capital. Synthetic securitisations involve transferring the credit risk of a pool of loans - typically large corporate loans or loans to small and medium-sized enterprises (SMEs) - through a credit protection arrangement where the originator buys credit protection from the investor. Such credit protection is implemented through financial guarantees or credit derivatives, and the originator remains the owner of the assets, i.e. ownership is not transferred to a Securitisation Special Purpose Entity (SSPE), as is the case with traditional securitisations. The regulation also introduces a set of new requirements specifically for synthetic securitisations, with the aim that the simple, transparent, standardized (STS) securitisation framework covers only on-balance sheet synthetic securitisations, and the credit protection agreement is structured to adequately protect the interests as both the initiator and the investor. This new set of requirements should overcome the counterparty credit risk for both the originator and the investor.

This Regulation has become effective on the third day following that of its publication in the Official Journal of the European Union, i.e. on 09.04.2021.

## **REGULATION (EU) 2021/558 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 31 March 2021 amending Regulation (EU) No 575/2013 as regards adjustments to the securitisation framework to support the economic recovery in response to the COVID-19 crisis (Text with EEA relevance)**

The Regulation was adopted considering the need to support recovery from the severe economic shock caused by the COVID-19 pandemic by introducing targeted amendments to existing financial regulations. Substantial provisions therein are devoted to securitisation, which is an important element of the successful functioning of financial markets, as it contributes to the diversification of the sources of financing of institutions and to the release of regulatory capital that can be directed to support the promotion of lending. In addition, securitisation provides institutions and other market participants with additional investment opportunities, which achieve portfolio diversification and facilitate the flow of finance to businesses and citizens both in Member States and cross-border across the Union. The final elements of the Basel III framework published on 7.12.2017 provide, in the case of securitised exposures, a minimum credit rating requirement for only a limited set of protection providers, namely non-government entities, entities of the public sector, institutions or other financial institutions subject to prudential requirements. It is therefore necessary to amend Article 249(3) of Regulation (EU) No 575/2013 to comply with the Basel III framework in order to increase the effectiveness of national public guarantee schemes

supporting the strategies of institutions for securitisation of non-performing exposures following the COVID-19 pandemic. The Regulation introduces a rule for inheriting existing senior positions in synthetic securitisations that qualify for the preferential prudential treatment applied before the date of entry into force of this amending Regulation. It also regulates the synthetic excess spread (SES), a mechanism commonly used in the securitisation of certain asset classes for originators and investors to reduce protection costs and, accordingly, risk exposure. Special prudential treatment of SES needs to be provided to prevent SES from being used for regulatory arbitration purposes.

**REGULATION (EU) 2021/1755 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 6.10.2021 establishing the Brexit Adjustment Reserve**

The regulation establishes the Brexit adjustment reserve and lays down its objectives, its resources, the forms of Union funding and rules on its implementation, including on the eligibility of expenditure, management and control, and financial management. The Reserve shall provide support to counter the adverse economic, social, territorial and, where appropriate, environmental consequences of the withdrawal of the United Kingdom from the Union in Member States, including their regions and local communities, and sectors, in particular in those that are most adversely affected by the withdrawal, and to mitigate the related negative impact on the economic, social and territorial cohesion. The objectives of the Reserve shall be pursued in line with the objective of promoting sustainable development as set out in Article 11 TFEU, taking into account the United Nations Sustainable Development Goals, the Paris Agreement and the ‘do no significant harm’ principle. The regulation entitles all Member States to support from the reserve, with the maximum amount of reserve resources set at EUR 5 470 435 000 at current prices. Funding from the reserve is used only to support measures taken specifically by the Member States, including at the regional and local level, specified in Article 5 of the regulation. When executing tasks relating to the implementation of the Reserve, Member States shall take all the necessary measures, including legislative, regulatory, and administrative measures, to protect the financial interests of the Union.

This Regulation has become effective on the day following that of its publication in the Official Journal of the European Union – 09.10.2021.

**REGULATION (EU) 2021/2259 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 15 December 2021 amending Regulation (EU) No 1286/2014 as regards the extension of the transitional arrangement for management companies, investment companies and persons advising on, or selling, units of undertakings for collective investment in transferable securities (UCITS) and non-UCITS**

The main motive for the adoption of the Regulation is the requirement of Art. 5 of Regulation (EU) No. 1286/2014 of the European Parliament and of the Council on key information documents for packaged retail and insurance-based investment products (PRIIPs), before making a given PRIIP to retail investors, to draw up and publish key information document (KID). Another item of importance is the supplementation to Regulation (EU) No. 1286/2014 implemented by Delegated Regulation (EU) 2017/653 of the European Commission, laying down regulatory



technical standards are defined regarding the presentation, content and standard format of KID, the methodology for presenting risk and return and on the calculation of costs, the conditions and the minimum frequency of revision of the information contained in KIDs and the conditions for providing KIDs to retail investors. Also, an important prerequisite is the adoption by the European Commission on 09/07/2021 of a Delegated Regulation amending the regulatory technical standards defined in Delegated Regulation (EU) 2017/653, regarding the main methodology and the presentation of the scenarios for the results, the presentation of costs and the methodology for calculating the aggregated indicators for costs, the presentation and content of information on the results for past periods and the presentation of costs for PRIIPs, where a set of investment options is offered, as well as with regard to the consideration of the transitional regime for the specified in Article 32 of Regulation (EU) No. 1286/2014, creators of PRIIPs, offering units of funds as investment options for an underlying instrument, with the extended transitional regime under the same Article. Last but not least is the need to extend the transitional provisions until 31.12.2022 in order to create conditions for retail investors to make better informed investment decisions and to remove some concerns, including regarding of the need for a clearer definition of “retail investor”, the product scope of the said regulation, the removal of the default paper medium when PRIIPs are offered directly, the concept of sequential transactions and the provision of pre-contractual information to professional investors.

This Regulation has become effective on the day following that of its publication in the Official Journal of the European Union – 21.12.2021.

**Amendment to 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 148/2012.

## **II. Directives published in the Official Journal of the EU:**

**Directive (EU) 2021/2261 of the European Parliament and of the Council of 15 December 2021 amending Directive 2009/65/EC as regards the use of key information documents by management companies of undertakings for collective investment in transferable securities (UCITS)**

The amendments made to the directive introduce an obligation for Member States to ensure that when an investment company or - for any of the mutual funds it manages - a management company prepares, provides, edits and translates a key information document that meets the requirements for key information documents, established in Regulation (EU) No 1286/2014 of the European Parliament and of the Council, the competent authorities consider that this key information document meets the requirements applicable to key investor information under Articles 78 - 82 and Article 94 of this Directive. In addition, guarantees should be provided that the competent authorities do not require the investment company or - for any of the mutual funds

managed by it - the management company to prepare key information for investors in accordance with Articles 78 to 82 and Article 94 of this directive when it prepares, provides, edits and translates a key information document meeting the requirements for key information documents set out in Regulation (EU) No 1286/2014.

Member States are obliged to adopt and publish the relevant provisions to introduce the texts from the directive into their domestic legislation by 30.06.2022 at the latest, in order to start applying them from 1.01.2023.

**Commission Delegated Directive (EU) 2021/1269 of 21 April 2021 amending Delegated Directive (EU) 2017/593 as regards the integration of sustainability factors into the product governance obligations**

The amendments are related to the effort to facilitate the transition to a low-carbon, more sustainable, resource-efficient, circular economy, in line with the EU's sustainable development goals. In this regard, the EC adopted an Action Plan on Sustainable Finance containing a large-scale strategy for financing sustainable development. Among the goals set out in the plan is to reorient capital flows towards sustainable investment in order to achieve sustainable and inclusive growth. The amendments introduce an obligation for investment firms manufacturing and distributing financial instruments to consider sustainability factors in the product approval process of each financial instrument and in the other product governance and oversight arrangements for each financial instrument that is intended to be distributed to clients seeking financial instruments with a sustainability-related profile. To ensure that financial instruments with sustainability factors remain easily available also for clients that do not have sustainability preferences, investment firms should not be required to identify groups of clients with whose needs, characteristics, and objectives the financial instrument with sustainability factors is not compatible. The amendments aim to present the sustainability factors of a financial instrument in a transparent manner to enable the distributor to provide the relevant information to its clients or potential clients.

The deadline for introducing the directive into domestic legislation is 2.08.2022, and the deadline for its implementation is 22.11.2022.

**Commission Delegated Directive (EU) 2021/1270 of 21 April 2021 amending Directive 2010/43/EU as regards the sustainability risks and sustainability factors to be taken into account for Undertakings for Collective Investment in Transferable Securities (UCITS)**

The amendments are related to the transition to a low-carbon, more sustainable, resource-efficient, circular economy, in line with the EU's sustainable development goals. In March 2018, the EC published an Action Plan on Sustainable Finance containing an ambitious large-scale strategy for financing sustainable development. Among the goals set out is to reorient capital flows towards sustainable investment in order to achieve sustainable and inclusive growth. From the impact assessment published in May 2018, which underpins subsequent legislative initiatives, it is clear that management companies must consider sustainability factors as part of their obligations to investors. In addition, in order to avoid a competitive disadvantage between management companies and investment companies that have not designated a management company, and to avoid the associated fragmentation, inconsistency and unpredictability of the functioning of the

internal market, the provisions on the inclusion of sustainability risks should also apply to investment companies, taking into account the scale of their activity. With a view to ensuring a high degree of investor protection, when identifying the types of conflicts of interest that could harm the interests of a UCITS, the management company should also identify those conflicts of interest that may arise as a result of the inclusion of the risks on sustainability in its processes, systems, and internal controls. Pursuant to Regulation (EU) 2019/2088, management or investment companies that are required to account for the main adverse impacts of investment decisions on sustainability factors, or to take into account, without being required to, these adverse impacts, are required to disclose how the said adverse impacts are reported by their due diligence process. In view of the consistency between Regulation (EU) 2019/2088 and Directive 2010/43/EU, this obligation should be reflected in Directive 2010/43/EU.

The deadline for introducing the directive into domestic legislation is 31.07.2022, and the deadline for its implementation is 01.08.2022.

**DIRECTIVE (EU) 2021/338 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 16.02.2021 amending Directive 2014/65/EU as regards information requirements, product governance and position limits, and Directives 2013/36/EU and (EU) 2019/878 as regards their application to investment firms, to help the recovery from the COVID-19 crisis.**

This amendment to MIMIF II, concerning investments in financial instruments, aims to eliminate the administrative burden caused by documentation and disclosure requirements. It also changes the position limits and the corresponding hedging exemption regime. Financial entities that are part of a predominantly commercial group may apply for a hedging exemption for positions held by that financial entity that are objectively measurable as reducing risks directly related to the commercial activities of the non-financial entities of the group. In order to provide additional legal clarity, to avoid an unnecessary administrative burden for Member States and to ensure a uniform legal framework for investment firms that will fall within the scope of Directive (EU) 2019/2034 of the European Parliament and of the Council, as from 26.06.2021, it is appropriate to postpone the date of introduction into domestic legislation of Directive (EU) 2019/878 with regard to IFs until 26.06.2021.

The reliefs are in the following directions:

- **Gradual phasing out of the mandatory provision of information on paper;**
- **Disclosure of costs and fees;**
- **Easing follow-up notification requirements;**
- **Termination of best performance notifications;**
- **Simplification of cost-benefit analysis;**
- **Product governance;**
- **Service reports;**
- **Ability to combine research and execution costs when researching small and mid-cap issuers;**

- **The commodity derivatives position limit regime has been adapted to enable European firms to respond to market volatility and to support the emergence and growth of euro-denominated commodity derivatives markets.**

- **The deadline for introducing the directive into domestic legislation is 28.11.2021**

**Directive (EU) 2021/2118 of the European Parliament and of the Council of 24 November 2021 amending Directive 2009/103/EC relating to insurance against civil liability in respect of the use of motor vehicles, and the enforcement of the obligation to insure against such liability (Text with EEA relevance)**

The objectives of this Directive are to ensure equivalent minimum protection for persons injured as a result of road traffic accidents throughout the Union, to ensure their protection in the event of the insolvency of insurance undertakings and to ensure equal treatment by insurers of insurance claims certificates in the cases of persons wishing to take out insurance crossing the internal borders of the Union.

The deadline for the introducing the directive into the national legislation of the member states is 23.12.2023.

### **III. Legislative proposals**

**Proposal to amend 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) and Proposal for a Directive of the European Parliament and of the Council establishing a framework for recovery and resolution of insurance and reinsurance undertakings and amendments to Directives 2002/47/EC, 2004/25/EC, 2009/138/EC, (EU) 2017/1132 and Regulations (EU) No. 1094/2010 and (EU) No. 648/2012**

On 22.09.2021, the EC published the aforementioned proposals for amending Solvency II and for creating a framework for the recovery and resolution of insurance and reinsurance undertakings.

The objectives of the Solvency II amendments are as follows:

- to increase long-term investment by insurance and reinsurance companies for Europe's recovery from the COVID-19 pandemic, for the development of the Capital Markets Union and for the European Green Deal;

- to make the insurance sector more resilient so that it can weather future crises and better protect policyholders;

- to introduce simplified and more proportionate rules for some smaller insurance companies;

- consumers of insurance services to be better informed about the financial position of their insurer;

- consumers to be better protected when buying insurance products in other Member States thanks to improved cooperation between supervisory authorities;

- the financial position of insurers to better account for certain risks, including those related to climate, and to be less sensitive to short-term market fluctuations.

The proposed Recovery and Restructuring Directive aims to ensure that insurance and reinsurance undertakings and the relevant authorities in the EU will be better prepared in the event of significant financial difficulties for undertakings. It will introduce a new orderly resolution process that will better protect policyholders, as well as the real economy, the financial system and ultimately taxpayers. National competent authorities will have a better toolkit in the event of an insurance company going bankrupt. By establishing resolution colleges, relevant supervisors and resolution authorities will be able to take coordinated, timely and decisive action to address problems arising within cross-border (re)insurance groups.

### **Protecting EU citizens and the financial system from money laundering and terrorist financing**

In 2020, the EC presented an action plan for a comprehensive Union policy to prevent money laundering and terrorist financing, with which the EC committed to take measures to strengthen and enforce EU rules on this fight. Thus, the EC defined six priorities for the prevention of money laundering and terrorist financing: ensuring the effective implementation of the existing framework; creating a unified EU regulatory framework; introduction of supervision at EU level; creation of a support and cooperation mechanism for financial intelligence units; compliance with criminal law provisions and exchange of information at EU level; strengthening the international dimension of the EU framework.

In July 2021, the EC presented a package of legislative proposals to strengthen the EU's AML/CFT rules. The package also includes a proposal to create a new EU anti-money laundering body. The aim of this package is to improve the detection of suspicious operations and activities and to clarify the regulatory texts, so as to minimize the opportunities for laundering of illegal proceeds or financing of terrorist activities through the financial system. As recalled in the EU's Security Union Strategy 2020-2025, strengthening EU legal rules to combat money laundering and terrorist financing will help protect Europeans from terrorism and organised crime.

When preparing the package, the new and emerging challenges caused by technical progress - virtual currencies, more integrated financial flows within the single market, the global nature of terrorist organisations, etc. were taken into account, the current EU legislation is significantly improved. The proposals aim at building a much more harmonised European legal framework, which would facilitate compliance with the legal AML/CFT regulations by the various economic entities and especially those with cross-border activities.

The legislative package includes four new proposals, namely:

- Drafting a Regulation for the establishment of a new EU Anti-Money Laundering Authority;
- Drafting a new Regulation on AML/CFT, having among its directly applicable provisions those on customer due diligence and on beneficial ownership;
- Creation of the 6<sup>th</sup> Anti-Money Laundering and Terrorist Financing Directive replacing the current Directive (EU) 2015/849 (as amended by the 5<sup>th</sup> Anti-Money Laundering Directive)

and among whose provisions to be implemented in the national legislation, are those on national supervisory authorities and on financial intelligence units in the Member States;

- Revision of Regulation (EU) 2015/847 of the European Parliament and of the Council of 20.05.2015 on information accompanying transfers of funds and repealing Regulation (EC) No. 1781/2006, which aims to regulate the tracking of crypto asset transfers.

### **Implementation of the Capital Markets Union (CMU) Development Plan**

In 2020, the EC published a new action plan to promote the Capital Markets Union, which builds on the achievements of the first CAP Building Plan of 2015 and its revision of 2017. Developing EU capital markets and ensuring access to market funding are crucial to achieving the top priority of ensuring Europe's recovery from the one-of-a-kind economic crisis caused by the coronavirus, as well as facilitating the digital and environmental transition.

In implementation of the targeted measures of the action plan, in November 2021 the EC adopted the following legislative proposals:

#### **European Single Access Point (ESAP) Package**

The EC proposes the creation of a European Single Access Point (ESAP), which should help investors get easy, fast and comparable access to data on European companies, thus facilitating access to financing for European companies. ESAP is expected to contribute to the further integration of financial services and capital markets in the EU single market and to foster the development of smaller national capital markets and economies by giving them greater visibility. The ESAP is also expected to allow companies, including small and medium-sized enterprises not traded on a regulated market, to voluntarily provide information to facilitate their access to capital.

The legislative proposal consists of a Regulation establishing the ESAP, accompanied by an amending omnibus directive and an amending omnibus regulation, which propose amendments to a number of acts of the current sectoral legislation.

The European Securities and Markets Authority (ESMA) will build and manage the platform. The information will be sent to ESMA by national or European information collection authorities defined in the relevant sectoral legislation (for the mandatory information) or in second level implementing technical standards (for the voluntary information).

The establishment of ESAP will lead to an increase in data standardization, which is a prerequisite for the growth and comparability of information in the field of financial markets. As a common data space, ESAP should also enable artificial intelligence and machine learning tools to act on this information, as envisaged in the EC's European Data Strategy.

In addition, ESAP will provide easier access to environmental, social and governance (ESG) information, in line with the EU's stated role as a leader in this field and in terms of access to such information.

**European Commission proposal for amendment of Regulation (EU) No. 2015/760 of the European Parliament and of the Council of 29 April 2015 on European long-term investment funds“(ELTIFs)**

The proposal aims to increase the interest in ELTIFs for investors and their role as an additional source of financing for EU companies. It will also make it easier for retail investors to invest in ELTIFs and ensure strong investor protection. As ELTIFs are designed to channel long-term investment, they are well placed to help finance the green and digital transition.

The proposal includes changes aimed at broadening the scope of eligible assets and investments, creating more flexible rules for funds, including the facilitation of “funds of funds” strategies, and reducing unreasonable barriers to retail investors' access to ELTIFs, more in particular the requirement for initial investments of EUR 10,000 and the requirement for a maximum total threshold of 10% for those retail investors whose financial portfolios are below EUR 500,000.

Furthermore, the proposal aims to make the structure of ELTIFs more attractive by relaxing the rules on selected funds for ELTIFs available only to professional investors. The review of the legal framework for ELTIFs also introduces a voluntary liquidity window mechanism to provide additional liquidity to investors in ELTIFs and newly registered investors without requiring withdrawals from the capital of ELTIFs.

**Proposal of the European Commission for amending Directive 2011/61/EU of the European Parliament and of the Council of 8.06.2011 regarding alternative investment fund managers and for amending Directives 2003/41/EC and 2009/65/EC and of regulations (EC) No. 1060/2009 and (EU) No. 1095/2010 (AIFMD) and amending 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).**

The proposed changes are aimed at increasing the efficiency and integration of the market of alternative investment funds. The proposal harmonises the rules related to funds that provide loans to companies. This aims to facilitate lending to the real economy while better protecting investors and ensuring financial stability. The review also clarifies the delegation rules. EU delegation rules allow fund managers to source expertise from third countries. The proposal aims to ensure the availability of appropriate information and coordination between supervisory authorities in the EU, thereby further protecting investors and financial stability.

The amendments propose the introduction of harmonised options on liquidity management tools (LMTs) for managers of open-ended investment funds. It introduces a requirement for fund managers to select at least one more suitable LMT in addition to the option to suspend redemptions, thereby harmonising the minimum list of LMTs to be offered in each Member State. The possibility is provided for national competent authorities (NCAs) to require AIF/UCITS managers to activate or deactivate a relevant LMT.

It is also proposed that AIFMs implement effective policies, procedures, and processes for granting loans, for assessing credit risk and for monitoring the loan portfolio, while at the same time it is proposed that information about the granted loans be disclosed to investors.

Clarifying certain provisions applicable to the delegation of risk and portfolio management by fund managers, in the case of core functions of persons outside the EU, with the aim of

increasing transparency in the delegation of these functions, preventing the creation of so-called letter-box entities and ensuring a high level of investor protection.

With a view to optimizing reporting by AIFM for supervisory purposes and introducing supervisory reporting for UCITS, it is proposed that AIFMs regularly report to the NCA of its home Member State the markets and instruments it trades on behalf of the AIFs it manages, as and to provide information about the instruments it trades, the markets it trades in and the exposures of each of the AIFs it manages. A similar requirement is also introduced for the UCITS management company.

**Proposal to amend Regulation (EU) No. 600/2014 of the European Parliament and of the Council of 15.05.2014 on markets in financial instruments and to amend (EU) No. 648/2012 (MiFIR) and Directive 2014/65/EU of the European Parliament and of the Council of 15.05.2014 on the markets of financial instruments and amending Directive 2002/92/EC (MiFID)**

The dossier is relevant in particular considering access to information on the prices and trading volume of traded securities, as well as from the point of view of the risk that a lack of transparency will affect trading conditions and competitiveness at EU level.

The Markets in Financial Instruments Regulation and Directive (MiFIR and MiFID) govern the conduct of trading in financial instruments in the EU. Following the MIFID II regulatory changes, the upcoming MiFIR amendment proposal aims to contribute to an even more transparent and integrated trading environment under fairer conditions. The proposed reform examines the reasons why no person has expressed an interest in operating as a “consolidated data provider” (CDP) so far. It amends the provisions in MiFIR to facilitate the emergence of a CDP for each asset class (equities, exchange-traded funds, bonds, and derivatives). The CDP will aim to collect real-time data streams from regulated markets and alternative trading venues (multilateral trading facilities). The CDP will provide the public with the same information at a so-called reasonable price.

The EC is proposing the amendment to MIFID/R to effectively create a CDP, the purpose of which is to reduce liquidity and transaction risk for all market participants. In this regard, the new framework should, on the one hand, aim to improve the quality of market data and to pave the way for the consolidation of market data. On the other hand, it should facilitate the standardization of market data and provide an economic rationale for the consolidation of market data.



## **2. Licensing activity, licensing regimes, notifications, and certification**

### **2.1. Licensing activity and licensing regimes**

## Investment Firms, Tied Agents, Central Securities Depository, Investor Compensation Fund and Trading Venues

In 2021, one licence to carry out activity as an investment firm (IF) was issued to Nahman Capital OOD, and one licence was withdrawn from an IF as a result of a voluntary renunciation of a licence (Coactorii Finance AD). At the beginning of the reporting year, a proceeding for the issuance of an IF licence (KR Global Financial Investment EOOD), initiated in 2020, was terminated.

Due to the above, at the end of 2021 the total number of investment firms is 56, incl. 20 banks<sup>36</sup> and 36 non-banking investment firms. The number of investment firms (banking and non-banking institutions) with a full licence (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 licence under Art. 10, para 2 of the MFIA is 18.

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

	Number as at 31.12.2020	Licences issued	Licences revoked	Number as at 31.12.2021
Investment firms, including:	56*	1	1	56*
Non-banking institutions	36	0	0	36
Regulated market	1	0	0	1
Multilateral trading facility	2	0	0	2
Central securities depository	1	0	0	1

Notes: \*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 2021, **28 applications for approval of appointment of a member of a management or supervisory body** of an investment firms were considered, no rejections were given. The large number of proceedings are related to the need to bring some existing IFs into line with the applicable regulations by simultaneously applying the requirements of the MFIA and the CA, and in 2021 a large part of the IFs have already completed this process.

In 2021 FSC has reviewed **3 proceedings for acquisition or increase of qualified holdings of the capital or the votes in the general assembly of an investment firm were examined**, resulting in one ban. **One notice for transfer of qualifying holdings** was considered.

In 2021, 9 applications were submitted for **exemption under Art. 5, para. 1, item 10 of the MFIA**.

Of the total number of administrative procedures completed in 2021 in respect of investment firms, 3 are related to proceedings for the issuance or revocation of a licence to operate as an investment firm, 28 were related to approval of a member of a management or supervisory body of an investment firm and 4 were related to acquisition or transfer of qualified holding. At the end of the year, 9 proceedings related to the activity of IFs were under consideration.

Within 2021, 4 applications for **entry of a tied agent** in the register kept by FSC were considered, 3 of them ended with the entry of the tied agent, and 1 was terminated by request of

<sup>36</sup>The number of investment firm banks includes those that operate on the territory of the country through a branch.

the applicant. During the year, one tied agent was deregistered from the register maintained by FSC at the request of the company.

In 2021 regarding the activity of the **Bulgarian Stock Exchange AD**, 2 applications for approval of changes in the Rules for the activity of the regulated market and 3 applications for approval of members of the BD of the Company were considered.

At the end of 2020, a proposal was received for changes to the Rules for the organisation and operation of the **Investor Compensation Fund**, which were subject to discussion, correction, and further clarification with the fund throughout 2021. During the reporting year, 1 approval of changes to the Internal Rules for salaries in the Investor Compensation Fund was issued and 1 member of the Fund's Management Board was approved.

In 2021, one proceeding was considered for the approval of changes to the Rules for the activities of **Central Depository AD**.

**Table 2. Administrative procedures with respect to IFs, tied agents, trading venues, Central Securities Depository, data reporting service providers and the Investor Compensation Fund**

	Not concluded as at 31.12.2020	New in 2021	Concluded in 2021	Not concluded as at 31.12.2021
Investment firms	2	42	35	9
Tied agents	1	4	5	0
Regulated market	4	1	5	0
Multilateral trading facilities	0	0	0	0
Organised trading facilities	0	0	0	0
Central securities depository	0	1	1	0
Data reporting service providers	0	0	0	0
Investor Compensation Fund	0	3	2	1
Other proceedings*	3	66	64	5

Note: \*Replies to inquiries, requests for assistance 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 2021, no licence was issued to operate as a management company and **1 licence of a management company was revoked** as a result of voluntary renunciation (MD Alpha Asset Management AD).

In 2021, **2 permits of MCs to organise and manage a MF were issued**, 1 of which for an umbrella fund with 10 sub-funds (MF UBB ExpertEase and Borg AI Ultra UCITS ETF) and 2 permits for transformation of MFs (merger of MF UBB Platinum Euro Bonds, MF UBB Balanced, MF UBB Premium Shares, MF UBB Patrimonium Land, MF UBB Global Farm Invest, MF UBB

Global Children's Fund, MF UBB Global Growth and MF UBB Global Dividend in MF UBB Platinum Bonds and merger of MF Astra Commodities into MF Astra Energy). After the establishment of MF OBB ExpertEase at the end of 2021, an application was submitted for the issuance of a permit to organise 6 new sub-funds of this umbrella fund, and the permit was issued in 2022.

Additionally, in 2021, **ten decisions were issued to de-register** MFs from the registers maintained by FSC (MF Alpha SOFIX Index, MF Astra Commodity and the above 8 MFs merged into MF UBB Platinum Bods), as a result of decisions issued in 2020 and 2021 authorizing the termination or transformation of mutual funds.

In 2021, **6 permits for organizing and managing sovereign wealth funds** were issued- of close-ended sovereign mutual fund Dynamic and of the open-ended sovereign mutual funds Ef Potential, ELANA Ned Davis Research Dynamic Strategy, DSK Horizon 2030, DSK Horizon 2035 and DSK Horizon 2040.

In 2021, **4 alternative investment fund managers (AIFM)** were registered under Art. 214 et seq. of CISOU CIA (MC Strategy Asset Management AD, Serdika Capital EAD, MC Ef Asset Management AD and MC Elana Fund Management AD), but most of the registrations are the result of the permits for organizing and managing sovereign wealth funds issued to licenced management companies.

In 2021, there is a greater interest in the proceedings for the issuance of a licence to carry out activity as an alternative investment fun manager (AIFM) in connection with the possibility that these alternative investment funds managed by companies fall within the scope of permissible investments of the pension insurance companies. 3 applications have been submitted for the issuance of a licence to operate as an AIFM, with 1 licence issued in 2021 (to Concord Asset Management AD) and 1 in early 2022, and the third application is still under consideration.

**Table 3. Licensing activity in relation to MCs, AIFMs and collective investment undertakings<sup>37</sup>**

	Number as at 31.12.2020	Issued licences/ permits / registrations	Revoked licences/ permits	Number as at 31.12.2021
Management companies	31	0	1	30*
Contractual funds	125	2	10**	117
Sovereign wealth funds (SWFs)	7	6	0	13
Alternative Investment Fund Managers - licence	0	1	0	1
Alternative Investment Fund Managers - registration	17	4	1***	20

<sup>37</sup> Notes: \* The number of MCs also includes the branch of KBC Asset Management NV, Belgium.

\*\* The revoked permits are a result of transformation and / or termination of the MF.

\*\*\* Concord Asset Management AD was issued an AIFM license and the company is no longer a registered AIFM

In 2021, 26 proceedings were considered for approval of a new member of the management body of **management companies**, no rejections were given. In the reporting period, 2 notifications regarding the intention to transfer a qualifying holding in a management company and 1 notification regarding the intention to acquire such holding.

During the reporting year 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 period, the procedures for issuing 91 approvals for changes to the rules for under Article 13, Paragraph 2 of the CISOU CIA, 13 approvals for changes of portfolio valuation rules and determination of the net asset value, 8 approvals for changes of risk assessment and management rules. In addition, 10 approvals of changes in the contracts for depository services and 2 approvals of replacement of the depository bank were considered.

In 2021, 8 applications for approval of changes were reviewed under Art. 179 of the CISOU CIA for **national investment funds** - 2 for approval of changes in rules under Art. 173, para. 4 of the CISOU CIA, 2 for approval of changes in rules for portfolio valuation and determination of the net asset value and 2 for approval of changes in rules for risk assessment and management and 1 for procurator approval.

During the reporting period, in accordance with the above, 4 proceedings for registration under Art. 214 of the CISOU CIA of **an alternative investment fund manager** were considered.

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

	Not concluded as at 31.12.2020	New in 2021	Concluded in 2021	Not concluded as at 31.12.2021
Management companies	4	27	30	1
Contractual funds	12	130	136	6
Sovereign wealth funds	1	10	10	1
Alternative investment fund managers	1	6	5	2
Other proceedings*	2	27	28	1

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 2021, **1 new licence** has been issued for operating as a real estate special purpose investment company, as well as no refusals to issue a licence to SPICs.

In 2021, **3 licences** for operating as special purpose investment companies (for investments in real estate) were revoked as a result of explicit voluntary renunciations and completed buybacks of the companies' shares of special purpose investment companies - Agro Finance SPIC, Agroenergy SPIC and Agroenergy Invest SPIC.

In 2021 there were **no forced revocation of licences** for operating as a special purpose investment company.

In 2021 they were **2 decisions for approval of termination** of a special purpose investment company, for revoking their licences and for approvals of liquidators under Art. 28 of the SPICA (repealed) respectively under Art. 33 of the SPICA (repealed) respectively under Art. 33 of the SPICSCA.

For the period 01.01.2021–31.12.2021 there was **1 decision to suspend** the proceedings for the approval of the dissolution of a special purpose investment company pending the completion of a commercial case initiated before the Sofia City Court, and **1 decision to terminate proceedings** for the issuance of a permit for the termination of a SPIC under Art. 28 of the SPICA (repealed) on the basis of a request made by the company to withdraw the application.

As of the end of 2020, there are 57 companies licensed to operate as SPICs, and at the end of 2021 their number is 53. For comparison, a total of 73 companies have received a licence to operate as a special purpose investment company, of which 20 have their licences revoked as of 31.12.2021.

**Table 5. Licensing activity with respect to SPICs**

	Number as at 31.12.2020	Licences issued in 2021	Licences revoked in 2021	Number as at 31.12.2021
SPICs including:	57	1	5	53
SPICs investing in receivables	9	0	0	9
SPICs investing in real estate, including:	48	1	5	44
SPICs (agricultural land)	7	0	-	7

Irrespective of the public status of Special Purpose Investment Companies, given the specific nature of their activity, they are subject to stricter regulatory requirements which require prior approval by FSC for changes in their articles of association and in the other statutory documents related to the replacement of the depository bank and the servicing company. In this respect, the main part of the administrative procedures regarding SPICs, apart from the procedures for issuing and revoking licences, are related to requested approvals for amendment of the Articles of Association, for replacement of a depository bank and a servicing company of special purpose investment companies. It should be noted that these approval procedures are regulated in the repealed Special Purpose Investment Companies Act (SPICA, in force until 16.03.2021), but in the newly adopted Special Purpose Investment Companies and Securitisation Companies Act (SPICSCA, effective from 16.03.2021) the procedures for approval of an amendment to the Articles of Association for replacement of a depository bank and of persons entrusted with functions for servicing the activity of special purpose investment companies are also regulated, including new ones. Approval procedures with regard to the members of the management bodies of the SPIC and in case of amendments to the agreements with persons who have been assigned functions for servicing the activity of the SPIC.

In relation to the activity of Special Purpose Investment Companies and the regulatory requirements for that activity according to the SPICA (revoked) and the SPICSCA, effective from 16.03.2021, in 2021 FSC reviewed and issued decisions on a **total of 64 proceedings**, as follows:

- 26 applications for issuance of an approval of changes in the Articles of Association of Special Purpose Investment Companies, under which FSC issued **26 decisions for approval of the envisaged amendments to the Articles of Association or approval of new Articles**;

- 10 applications for the approval of the Risk Management Rules of the SPICs when participating in the establishment or in the acquisition of shares or shares in a specialized company under Art. 28, para. 1 of the SPICSCA, according to which FSC has **issued 10 decisions approving the Rules**;

- 11 applications for issuance of an approval of members of the Board of Directors of Special Purpose Investment Companies, under which FSC issued **25 decisions for approval of members of the management bodies** of SPICs;

- 3 applications for issuing approval for the assignment of activity to a third party under Art. 27, para. 4 of the SPICSCA regarding the activity of SPICs, on which FSC has issued **3 approval decisions**.

In 2021 **no applications for approval have been received to replace a depository bank** of a special purpose investment company.

During the reporting year, **no refusals were given to issue an approval** of changes in the Articles of Association, of BD members, of Risk management Rules or to replace a depository bank of a special purpose investment company, and there was no termination of proceedings under such applications.

The current SPICSCA, in addition to the activities of the SPICs, secures the application of Regulation (EU) 2017/2402 laying down a general framework for securitisation and creating a specific framework for simple, transparent, and standardised securitisation (Regulation (EU) 2017/2402) is ensured in relation to of securitisation companies. In 2021, FSC received no applications and, accordingly, no decisions were issued related to proceedings regarding securitisation companies and STS compliance agents.

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 under Art. 100k, para. 2, item 5 of the POSA, kept by FSC. In 2021, 2 public companies (without SPICs) - (Toplofikatsia-Ruse AD and Toplofikatsia-Burgas AD) and 3 issuers of securities (Black Sea Star AD, close-ended sovereign mutual fund Dynamic AD and International Bank for Economic Cooperation) were listed in the register above, respectively, during the period, the companies deregistered from the register maintained by FSC are a total of 9<sup>38</sup>, of which 6 public companies (Vaptsarov AD, Pazardjik BTM AD, Kotlostroene AD, Agroenergy SPIC, Agroenergy Invest SPIC and Valor Properties SPIC) and 3 issuers of securities (VEI Project AD, East Gas Company EAD and Eurolease Auto EAD).

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<sup>38</sup> The total number of 9 deregistered companies (public companies and issuers of securities) does not include 5 companies, which during the period were deregistered as public companies or issuers ex officio.

It should be borne in mind that during the reporting year, 5 more companies were officially deregistered from the register maintained by FSC, of which 2 were public companies declared bankrupt; 1 special purpose investment company with a forcibly revoked licence to operate as a special purpose investment company and after a corrective administrative measure has become effective; 1 issuer of shares in the process of being issued and 1 issuer declared bankrupt. All these companies have been written off ex officio, as public companies or issuers of securities, as a result of the powers exercised by the regulator under the POSA.

During the reporting 2021, there were no rejections to enter or delete a public company or an issuer of securities from the register kept by FSC.

**The total number of public companies (excluding SPICs) and the other issuers of securities registered as at the end of 2021 was 237.**

**Table 6. Public companies and other issuers of securities**

	Number as at 31.12.2020	Registered companies	Deleted companies	Number as at 31.12.2021
Public companies and other issuers*	243	3****	9***	237**

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 special purpose investment companies, which have revoked SPIC licences, but still have the status of public companies.

\*\*\* The total number of 9 deregistered companies (public companies and issuers of securities) does not include 5 companies, which during the period were deregistered as public companies ex officio.

\*\*\*\* The total number of 3 newly registered public companies and issuers of securities does not include Toplofikatsia-Ruse AD (as far as the company is included in the number of 243 as of 31.12.2020 only as an issuer, and in 2021 also receives the status of a public company) and close-ended sovereign mutual fund Dynamic (as far as the company is by its nature a close-ended collective investment undertaking).

With regard to the activity of public companies and issuers of securities in 2021, apart from the proceedings for registration (5) and deletion (13) of public companies and issuers, a total of 41 proceedings for review of prospectuses and supplements thereto were considered, preserving the trend noted during previous period, when 42 such proceedings were considered.

For 2021, a total of 28 applications for approval of prospectuses and 2 supplements have been submitted. From the applications submitted in 2021 it is established that there is a decrease of about 3.45% compared to the previous period, when the applications were 29.

In 2021, a total of 27 prospectuses were approved, which in turn represents an increase of 3.70% compared to the previous 2020, when the approved prospectuses were a total of 26.

During the reporting period, 2 supplements to approved prospectuses were approved - 1 supplement to a prospectus for EU recovery for initial public offering of shares and 1 supplement to a prospectus for initial public offering of a shares issuance.

The structure of the 27 prospectuses approved in 2021 is as follows:

**a total of 11 prospectuses for initial public offering of shares**, of which 2 of new companies;

**- 1 prospectus for initial public offering of bonds;**

**- 3 prospectuses for initial public offering of warrants;**



**- 1 prospectus for the initial public offering of shares;**

**a total of 11 prospectuses for admission to trading on a regulated market**, of which 10 prospectuses for admission for trading on a regulated market of bond issues and 1 prospectus for admission to trading on a regulated market of issues of shares.

Furthermore, during the year considered, FSC also issued a total of 3 refusals to approve prospectuses, of which two refusals for approval of a prospectus for initial public offering of shares and 1 refusal for approval of prospectuses for admission to trading on the regulated market of corporate bonds.

Additionally, in 2021, 1 procedure for approval of a prospectus for initial public offering of shares was terminated by the company's request to withdraw their application.

In the reporting year 2021, in relation to an application for the approval of a prospectus for an initial public offering of warrants, 1 decision was issued to refuse to provide an administrative service for the approval of the prospectus.

At the end of the year, there were 7 pending proceedings for approval of prospectuses – 1 proceeding for admission to trading bond issues and 2 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 2021 a total of 25 issues of securities were entered in FSC register, distributed as follows:

**11 issues of shares were registered**, 3 of which by new companies admitted to trading on a regulated market for the first time, and the other 9 issues as a result of a subsequent increase in the capital of public companies;

**- 10 bond issues are registered** as a result of approved prospectuses for admission to trading on a regulated market of bonds, issued under the terms of Art. 205, para. 2 of the Commercial Act and their issuance did not create an obligation to publish a prospectus under Regulation (EU) 2017/1129, as they are offered to less than 150 persons.

**- 1 bond issue is registered** as a result of a successfully completed initial public offering;

**- 2 share issues are registered** as a result of successfully completed initial public offerings;

**- 1 bond issue has been entered** as a result of its admission to trading on a regulated market.

During the reporting year, a total of 19 issues of securities were deleted from the register of public companies and other issuers of securities, kept by FSC, as follows:

**- 11 share issues** and

**- 8 bond issues.**

In 2021 there were no refusals to delete an issue of securities from the register kept by FSC, including due to refusal to deregister the public company or issuer of the securities, and no such proceedings were terminated.

In 2021, a total of 18 proceedings on registered tender offers, offers for purchase of shares and offers for redemption of shares were considered. With regard to the tender offers, purchase offers and redemption offers considered in 2021, the following decisions have been issued:

**- 13 decisions to issue a temporary ban** to publish the proposals;

- **15 decisions** by protocol for **refusal to issue a permanent ban** to publish the proposals;
- **3 final bans** was issued for the publication of a tender offer;

During the reporting period, there were no decisions to terminate proceedings on registered tender offers, buyout offers or redemption offers.

The total number of registered offers in 2021 is 18, of which 15 tender offers and 3 offers for redemption of shares.

As of the end of the year, there are 3 pending proceedings regarding consideration of tender offers.

During the reporting year 2021 no proceedings were initiated for approval of merger and acquisition applications with the participation of public companies. In 2021, no decisions have been issued for inclusion of an auditor in the list of independent auditors, approved by the Deputy Chairperson of FSC in charge of the Investment Activity Supervision Division and no refusals or terminated proceedings for approval of merger and acquisition applications with participation of public companies.

In 2021, no applications have been submitted for approval of a draft joint venture agreement.

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

	Not concluded as at 31.12.2020	New in 2021	Concluded in 2021	Not concluded as at 31.12.2021
SPICs	1	0	1	0
PCs and issuers	10	84	84	10
Other proceedings*	0	68	65	3

Note: \*Responses to inquiries, opinions on complaints and others related to the activities of public companies and issuers prepared in 2021 are counted as other proceedings.

### **Insurance and reinsurance**

In the end of 2021, the licensed insurance companies based in the Republic of Bulgaria are **33**, the non-life insurers are **23**, life insurers are **10**, and **1 company** is a reinsurer for non-life and life insurance.

During the reporting period **1 decision** was issued for conversion of an insurance company, namely:

- With Decision No. 683-O3 of 16.09.2021, FSC authorises transformation by merger of INSURANCE COMPANY NOVA INS EAD, UIC 175145092, into INSURANCE JOINT STOCK COMPANY BULSTRAD VIENNA INSURANCE GROUP AD, UIC 000694286. As of 04.10.2021, INSURANCE COMPANY NOVA INS EAD, UIC 175145092, has been deleted from the Commercial Register.

In 2021, there were **2 applications** to extend the scope of the licence of insurance companies:

- Application with ref. No. RG-10-80-25/19.11.2021, received by AXIOM INSURANCE COMPANY EAD, with which a request was made for the issuance of an additional licence for a class of insurance according to Appendix No. 1, Section II, letter A of the Insurance Code, namely on: item 6 Vessel insurance (sea, lake, river and canal vessels); item 7 Cargo during transport

(including goods, luggage, etc.); item 13 General liability; item 14 Loans; item 15 Guarantees; item 16 Miscellaneous financial losses; item 17 Legal expenses and item 18 Travel assistance;

- Application with ref. No. RG-10-78-16 of 09.12.2021 received by INSURANCE COMPANY BULGARIA INSURANCE AD, with which a request was made for the issuance of an additional licence for classes of insurance according to Appendix No. 1, Section II, letter 3K“А” of the Insurance Code, namely on item 13 General liability (for any liability for damages, outside item 10, item 11 and item 12); item 15 Guarantees (direct guarantees and indirect guarantees).

At the end of 2021, insurers from EU member states operating on the territory of the Republic of Bulgaria under the terms of the right of establishment (through a branch) number **12** (9 for non-life insurance, and the branches operating in life insurance are **3**), excluding:

- Olympic Insurance Company - Bulgaria Branch, with headquarters in Cyprus, is in liquidation proceedings pursuant to the Decision dated 30.07.2019 of the District Court in Nicosia, Republic of Cyprus, published on 23/08/2019, in the Official Gazette of the Republic of Cyprus;

- Chertasig - Insurance and Reinsurance Company AD - Bulgaria Branch, in respect of which a Decision to open bankruptcy proceedings was issued, which became effective as of 14.01.2021.

**Table 1: Number of insurers operating on the territory of the Republic of Bulgaria, under the terms of right of establishment (through a branch)**

No.	<b>LIST OF INSURERS WITH HEADQUARTERS IN A MEMBER STATE CARRYING OUT NON-LIFE INSURANCE ACTIVITIES IN THE REPUBLIC OF BULGARIA UNDER THE TERMS OF RIGHT OF ESTABLISHMENT /BRANCHES/</b>	
1	AVP P&S S.A., BULGARIA BRANCH	FRANCE
2	CARDIFF - NON-LIFE INSURANCE - BULGARIA BRANCH	FRANCE
3	COMPAGNIE FRANÇAISE D'ASSURANCE POUR LE COMMERCE EXTÉRIEUR CA- BULGARIA BRANCH KCHT	FRANCE
4	ATRADIUS CRÉDITO Y CAUCIÓN S.A. DE SEGUROS Y REASEGUROS BULGARIA BRANCH	SPAIN
5	QBE UK LIMITED - SOFIA BRANCH* (QBE INTERNATIONAL INSURANCE (EUROPE) LIMITED - SOFIA BRANCH)	UK
6	GRAZER WECHSELSEITIGE VERSICHERUNG AG (BULGARIA BRANCH, SOFIA)	AUSTRIA
7	COLONNADE INSURANCE SA - BULGARIA BRANCH	LUXEMBOURG
8	PORSCHE INSURANCE AG-BULGARIA BRANCH	AUSTRIA
9	AIG EUROPE S.A FOREIGN TRADER BRANCH	LUXEMBOURG
<b>LIST OF INSURERS WITH HEADQUARTERS IN A MEMBER STATE CARRYING OUT LIFE INSURANCE ACTIVITIES IN THE REPUBLIC OF BULGARIA UNDER THE TERMS OF RIGHT OF ESTABLISHMENT /BRANCHES/</b>		

10	METLIFE EUROPE D.A.C. – BULGARIA BRANCH	IRELAND
11	CARDIFF– LIFE INSURANCE - BULGARIA BRANCH	FRANCE
12	"NN INSURANCE JOINT STOCK COMPANY - SOFIA BRANCH **	HUNGARY

\* In regard to "QBA UK LIMITED - SOFIA BRANCH, UIC 130085153, information was received in FSC in October 2020 about the upcoming closure of the branch. According to the competent authority of the United Kingdom, all contracts on risks located on the territory of the Republic of Bulgaria, concluded through the branch, have been transferred to the insurers part of the group of the branch, for which a notification of intention to carry out activity on the territory of Republic of Bulgaria under the terms of freedom of services. In April 2021, FSC sent a letter requesting the provision of additional information regarding the upcoming closure of the branch or its registration in accordance with the requirements of the IC for registering a branch of a third-party insurer. By letter ref. No. 32-00-321 dated 10.05.2021, the competent authority of the UK confirms the imminent closure of the branch and the fact that it is not functioning. Intention was expressed for QBA UK LIMITED - SOFIA BRANCH to be officially closed by the end of the year. At the moment, the insurance branch appears in the Commercial Register and in the list of notifications of FSC, but it has no right to conclude new insurance contracts, starting from 01.01.2021.

\*\* Regarding NN INSURANCE JOINT STOCK COMPANY - SOFIA BRANCH, UIC 175067131, a notification has been received, ref. No. 32-00-125/08.04.2021 by the national competent authority of Hungary regarding the upcoming transfer of the insurance portfolio of the branch to DZI-Life Insurance EAD, UIC 121518328. FSC has sent a letter giving agreement and a certificate of solvency to the underwriting insurer, after a meeting on 17.06.2021. By letter, ref. No. 32-03-711/30.07.2021, the national competent authority of Hungary notifies of a decision issued on 14.07.2021 approving the transfer of the insurance portfolio of NN INSURANCE JOINT STOCK COMPANY - SOFIA BRANCH to DZI- LIFE INSURANCE"EAD, with an effective date of 30.07.2021. An official check found that documents and contracts regarding the transfer of the commercial enterprise NN INSURANCE JOINT STOCK COMPANY - SOFIA BRANCH to DZI-LIFE INSURANCE EAD were submitted for entry in the Commercial Register.

**Table 8. Licensing activity in relation to insurance and reinsurance**

	Number as at 31.12.2020	Licences issued	Licences revoked	Number as at 31.12.2021
Insurers and reinsurers including:	35	-	-	34
Non-life insurance	24	-	-	23*
Life insurance	10	-	-	10
Non-life reinsurance companies	1	-	-	1**
Life reinsurance companies	1	-	-	1
Branches of foreign insurers	12			12
Insurance brokers	330	15	7	338

\* As a result of transformation through the merger of INSURANCE COMPANY NOVA INS EAD into INSURANCE JOINT STOCK COMPANY BULSTRAD VIENNA INSURANCE GROUP AD, INSURANCE COMPANY NOVA INS EAD was terminated without liquidation and deleted from the Commercial Register, effective from 04.10.2021.

\*\* GP REINSURANCE EAD is the only local reinsurer with a non-life and life insurance licence.

In 2021, 3 decisions were issued for approval of the acquisition of qualifying holdings in insurance companies:

1. With Decision No. 240-OZ of 27.04.2021, FSC has approved the direct acquisition by AVESTA TRADE AD, UIC 121027425 of 100% qualified interest in the capital of INSURANCE COMPANY MEDICO - 21 AD, UIC 131039664;

2. With Decision No. 335-OZ dated 27.05.2021, FSC has approved the acquisition by ALLIANZ HOLDING ONE GMBH, Austria of indirect qualified interest in the capital of IC ALLIANZ BULGARIA, UIC 040638060, IC ALLIANZ BULGARIA LIFE AD, UIC 040293319, and IC ENERGY AD, UIC 831040933, through the acquisition of a direct qualified interest in the amount of 66.16% of the capital of ALLIANZ BULGARIA HOLDING, UIC 040812785, as a result of conversion through the merger of ALLIANZ NEW EUROPE HOLDING GMBH, Austria, into ALLIANZ HOLDING ONE GMBH, Austria;

3. With Decision No. 683-O3 of 16.09.2021, FSC authorises transformation by merger of INSURANCE COMPANY NOVA INS EAD, UIC 175145092, into INSURANCE JOINT STOCK COMPANY BULSTRAD VIENNA INSURANCE GROUP AD, UIC 000694286.

In 2021, FSC issued 12 decisions on the application of the regulatory regimes under the Insurance Code to insurers with revoked licences, as follows:

- With Decision No.18-O3 of 14.01.2021, FSC has given mandatory instructions to the conservator of IC EUROAMERICAN AD, UIC 124634117, appointed by virtue of Decision of FSC 796 – O3 of 05.11.2020;

- With Decision No. 103-O3 of 25.02.2021, FSC has given mandatory instructions to the conservator of IC NADEZHDA AD, UIC 131282730, appointed by virtue of Decision of FSC 1132-O3 of 17.08.2017;

- At a meeting of FSC under Minutes No. 35 dated 20.05.2021, a decision was made in connection with the reports received by FSC of the conservator of IC Nadezhda AD, ref. No. RG-10-82-13 dated 23.02.2021, RG-10-82-13 dated 26.03.2021 and RG-10-82-13 dated 23.04.2021 and the requests contained in them to give instructions, to send a letter to notify the conservator that an express decision of FSC with mandatory instructions is not necessary;

- At a meeting of FSC under Protocol No. 41 dated 10.06.2021, a decision was made to provide the Guarantee Fund, in its capacity as liquidator of IC Euroamerican AD, with the final report of the conservator of IC Euroamerican AD, ref. No. RG-10-90-1/12.04.2021, and the financial report of the conservator of IC Euroamerican AD, ref. No. RG-10-90-1/01.06.2021, as of the end of the conservatorship, together with the documents attached to them. The above decision was taken in connection with the need to fulfil the obligation of the Guarantee Fund according to item 5 of FSC Decision No. 123 - OZ of 11.03.2021, namely - within three months of its appointment to prepare and submit a plan to FSC for liquidation under Art. 606, para. 3 in connection with Art. 603, para. 1, item 2 of the IC;

- Decision No. 474-OZ of 07/08/2021, with which FSC approves a plan for the liquidation of IC EUROAMERICAN AD, UIC 124634117, submitted to the Financial Supervision Commission with a letter from the Guarantee Fund, ref. No. 23-1-35/21.06.2021, in his capacity as designated liquidator of IC EUROAMERICAN AD according to the decision of FSC No. 123-OZ of 11.03.2021;

- At a meeting of FSC according to Protocol No. 53 of 22.07.2021, a decision was made in connection with reports received by FSC from the conservator of IC Nadezhda AD, ref. . No. ПГ-10-82-13 of 19.05.2021, ПГ-10-82-2 of 08.06.2021, ПГ-10-82-13 of 25.06.2021, ПГ-10-82-3 of 13.07.2021 and ПГ-10-82-13 of 15.07.2021, and the requests contained in them to give

instructions, to send a letter to notify the conservator that an express decision of FSC with mandatory instructions is not necessary. In connection with the decision, a letter was sent to the conservator of IC Nadezhda AD, ref. No. RG-10-82-13 dated 22.07.2021;

- At a meeting of FSC according to Protocol No. 53 of 22.07.2021, a decision was made based on a letter received from the National Insurance Supervisory Authority of the Republic of Cyprus (Superintendent of insurance), ref. No. 32-00-230 of 12.07.2021 (in connection with ref. No. 32-00-727/25.07.2019), containing a request by the liquidators of Olympic Insurance Co. Ltd for disposal of funds of Olympic Insurance Company - Bulgaria branch, UIC 200737120, on an account at Eurobank Bulgaria AD. In connection with the received request, letters were sent to Eurobank Bulgaria AD, DSK Bank EAD and Unicredit Bulbank EAD, informing them that the liquidators of Olympic Insurance Co. Ltd with headquarters in the Republic of Cyprus on the basis of Art. 625 par. 2 of the IC may exercise on the territory of the Republic of Bulgaria all the powers they have according to the legislation of the member state where the insurer has obtained a licence, except for the use of coercion and ruling on legal disputes;

- Decision No. 473-OZ of 02.12.2021, by which FSC approves the amendment to the liquidation plan of IC EUROAMERICAN AD UIC 124634117, adopted by decision of the Management Board of the Guarantee Fund No. 28-1/08.11.2021, approved by decision No. 474-OZ of 07/08/2021 of FSC;

- With Decision No. 931-O3 of 23.12.2021, FSC has given mandatory instructions to the conservator of IC NADEZHDA AD, UIC 131282730, appointed by virtue of Decision of FSC 1132-O3 of 17.08.2017;

- At a meeting of FSC according to Protocol No. 79 of 21.10.2021, a decision was made in connection with reports received by FSC from the conservator of TRADE UNION MUTUAL INSURANCE CO-OPERATIVE - TUMICO, ref. No. RG-10-30-1 from 15.09.2021 and from 07.10.2021, respectively, as well as request, ref. No. RG-10-30-1/18.08.2021, supplemented on 26.08.2021, to issue mandatory instructions, to send a letter informing the conservators that it is not necessary for FSC to issue a decision explicitly. In connection with the decision, a letter was sent to the conservators of TUMICO, ref. No. PF-10-30-1 of 21.10.2021;

- At a meeting of FSC according to Protocol No. 87 of 23.11.2021, a decision was made in connection with reports received by FSC from the conservator of IC Nadezhda AD, ref. No. PF-10-82-13 of 29.10.2021, of 15.09.2021 and 24.08.2021 and the requests contained in them to give instructions, to send a letter to notify the conservator that an express decision of FSC with mandatory instructions is not necessary. In connection with the decision, a letter was sent to the conservator of IC Nadezhda AD, ref. No. PF-10-82-13 of 23.11.2021;

- At a meeting of FSC according to Protocol No. 96 of 23.12.2021, a decision was made in connection with reports received by FSC from the conservators of TRADE UNION MUTUAL INSURANCE CO-OPERATIVE - TUMICO, No. 46 and 47, registered with ref. No. RG-10-30-1 from 16.11.2021 and 15.12.2021, respectively, as well as request, ref. No. RG-10-30-6 of 03.12.2021, supplemented on 15.12.2021, to issue mandatory instructions, to send a letter informing the conservators that it is not necessary for FSC to issue a decision explicitly. In connection with the decision, a letter was sent to the conservators of TUMICO, ref. No. PF-10-30-1 of 23.12.2021

During 2021 by decision of FSC, **there were 15 insurance brokers entered** in the register kept by FSC pursuant to Article 30, para 1, item 12 of FSCA. In the same period **7 insurance brokers** were deleted at their request.

In 2021, by decision of FSC one insurance agent was deleted at his request.

At the end of the reporting period there were a total of **338 insurance agents** entered in the register kept by FSC pursuant to Article 30, para 1, item 12 of FSCA.

As of 31.12.2021, the insurance agents **are 6,984**, including. – 2,392 legal entities, 193 – sole traders and 4,399 – individuals.

As of 31.12.2021, there are 17 intermediaries offering insurance products as an additional activity, including – 16 legal entities and 1 individual.

The number of insurance agents registered in FSC register continues to decrease, the main reason being the termination of contracts for insurance agencies that have not been active for a long period of time. The biggest reported difference is for insurance agents, individuals, who in the previous quarter were 4,546, and in the fourth quarter of 2021 – 4,399.

**Table 9. Registration in the register of insurance agents**

	Number as at 31.12.2020	Number as at 31.12.2021
<b>Insurance agents* including:</b>	<b>7570</b>	<b>6,984</b>
- <b>Legal entities</b>	<b>2,483</b>	<b>2,392</b>
- <b>Sole traders</b>	<b>226</b>	<b>193</b>
- <b>Natural persons</b>	<b>4,829</b>	<b>4,399</b>
<b>Intermediaries offering insurance products as an ancillary activity</b>	<b>16</b>	<b>17</b>

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

In 2021 a **total of 120** administrative proceedings were initiated before FSC on the application of the regulatory regimes under the IC and the by-laws on its implementation, as follows:

- 89 individual administrative acts were issued in connection with the procedures for issuing licences, permits or approvals;
- 1 decision for transformation of an insurance company;
- 3 decisions for approval of the acquisition of qualifying holdings in insurance companies;
- 5 decision for giving mandatory instructions to appointed conservators of insurers with revoked licence;
- 1 decision to initiate proceedings to liquidate an insurance company;
- 2 decisions on application of regulatory regimes to the Guarantee Fund;
- 1 decision by which the Commission has approved early repayment of a subordinated term debt under a contract concluded by an insurance company;
- 1 decision authorizing conversion by merger of an insurance company;

- 41 decisions on approvals of members of management and supervisory bodies of insurance and reinsurance companies and insurance holding companies and of persons performing key functions in insurance or reinsurance companies;

- 34 decisions for approval of auditors of insurance or reinsurance companies and insurance holdings;

During the reporting period 31 individual administrative acts were issued against supervised entities subject to registration regime;

- 15 decisions for entry of insurance brokers in the register kept by FSC;
- 1 decision for deletion of insurance agents from the register of FSC at their request;
- 7 decisions for deletion of insurance brokers from the register of FSC at their request;
- 1 decision for registration of changes in the rules of procedure for holding examinations and rules for assessing an organisations conducting trainings for insurance brokers and vocational training programs according to Ordinance of FSC No. 28 of 10.05.2006

- 7 decisions of the Deputy Chairperson in charge of the Insurance Supervision Division for the admission of persons to the examination for the acquisition of the professional qualification of an insurance broker in accordance with the requirements of Regulation No. 28 of 10.05.2006 of FSC.

**Table 10. Administrative procedures in respect of insurance and reinsurance**

	Not concluded as at 31.12.2020	New in 2021	Concluded in 2021	Not concluded as at 31.12.2021
Insurance companies	31	160	150	41
Insurance intermediaries	18	45	36	27
Other proceedings	3	10	9	4
Total	52	215	195	72

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

### **Supplementary pension insurance**

The aspiration to build and maintain a sustainable and predictable regulatory framework is a prerequisite both for creating conditions for the sustainable development of capital pension funds and for increasing the interest of new market participants. In this regard, during the reporting year 2021, as a result of an application received from a pension insurance company (in the process of being established), the Financial Supervision Commission issued a decision to issue a pension licence and decisions to issue permits for the management of a universal, professional and a voluntary pension fund (for each fund separately). During the reporting period there were no requests for transformation of pension insurance companies and/or supplementary pension funds or payment funds, for voluntary winding-up of existing companies, and FSC did not establish grounds to withdraw issued pension licences.



Considering the decisions of FSC during 2021, the number of licensed pension insurance companies at the end of the year was 10, and the number of supplementary pension funds was 32, including 10 universal, 10 occupational, 10 voluntary and 2 voluntary pension funds under occupational schemes, and 1 of them was not active.

In view of the start of the pay-out phase from the universal pension funds from 1.09.2021 with the Act to amend and supplement the Social Insurance Code (SG, No. 19 of 5.3.2021) developed the regulations for the payment of pensions from the universal pension funds. In this regard, the creation of funds for the payment of lifelong pensions and funds for deferred payments is planned - separate properties whose assets are separated from the assets of pension insurance companies and pension funds. Funds are deemed to be established by enactment of the decisions of the commission and are subject to entry in the BULSTAT register and the register under Art. 30, para. 1, item 13 of the Law on the Financial Supervision Commission. As of 31.12.2021, FSC issued a total of 16 decisions in connection with 7 administrative proceedings initiated for the registration of lifelong Pension Payment Funds (LPPF) and 9 administrative proceedings for the registration of deferred payment funds (DPF). In relation to the payment funds there are applicable requirements for independent reporting, the performance of an independent financial audit and the application of supervisory measures, as a result of which the number of entities for which the Insurance Supervision Division carries out preliminary and ongoing supervision increases to 58.

In 2021, 9 official proceedings were initiated to determine the minimum yield in the management of the assets of the supplementary mandatory pension insurance funds and to approve a technical interest rate and biometric mortality tables, which are applied in the calculation of pension reserves by pension insurance companies, which manage a fund for supplementary voluntary pension insurance. As a result, 4 decisions were issued to determine the minimum yield of universal pension funds, 4 decisions to determine the minimum yield of occupational pension funds and 1 decision to approve a technical interest rate and biometric mortality tables to be applied when calculating the pension reserves as of 31.12.2021

During the year, at the request of a pension insurance company, a decision was made to approve biometric mortality tables, which are used to calculate lifelong pensions granted by a voluntary pension fund.

**Table 11. Licensing activity in relation to supplementary pension insurance**

	Number as at 31.12.2020	Issued licences/ permits/ decisions	Revoked licences/ permits/ decisions	Number as at 31.12.2021
Pension insurance companies (PICs)	9	1	-	10
Supplementary pension funds (SPFs)	29	3	-	32
Lifelong Pension Payment Funds (LPPFs)	-	7	-	7
Deferred Payment Funds (DPFFs)	-	9	-	9

Preliminary supervision also includes actions on the approval of documents of fundamental importance for the activity of the pension insurance companies and the supplementary pension insurance funds and payment funds managed by them. During the reporting period, the proceedings related to the permit and approval regimes within the competence of the administrative body were initiated at the request of the interested parties, both as a result of changes in the regulatory requirements that came into force, and in connection with the improvement of the management systems.

In connection with the changes in the Social Insurance Code that became effective on 09.03.2021, related to the regulation of the payment phase from the universal pension funds and the introduction of additional requirements for pension insurance companies, and the timely adopted and harmonised by-laws on the implementation within the statutory period, until 31.08.2021, the pension insurance companies converted and created the relevant reserves and brought their capital in line with the statutory requirements. Through its proactive and timely actions, the Commission, and in particular the Insurance Supervision Division, guarantees the successful and smooth start of the pay-out phase from 01.09.2021. In an extremely short period of time, the supervisory authority reviewed and ruled on the administrative proceedings related to:

- approving a technical interest rate for the calculation of an additional lifelong pension for old age;
- approving a technical interest rate for calculating a term occupational pension for early retirement;
- approving a risk factor when determining the amount of a lifetime pension for old age with a guaranteed amount;
- approval of new or amended and supplemented regulations for the organisation and activity of the supplementary pension insurance funds managed by the pension insurance companies;
- registering of lifelong pension payment funds;

- registering of deferred payment funds.

Also, during the reporting period, a total of 30 proceedings were initiated to approve new amendments and additions to regulations for the organisation and operation of supplementary pension insurance funds, dictated by the need for their further development and/or compliance with both the changes in the regulatory framework and the other internal acts of the pension insurance companies and the funds managed by them. 28 decisions were made to approve the changes in them, and the ruling on 2 proceedings took place at the beginning of 2022.

In the reporting year 2021, other administrative proceedings were initiated, related to:

- Approval of members of management and supervisory bodies of pension insurance companies;
- coordinating the selection of auditors to verify and certify the annual financial statements for 2021 of the pension insurance companies and the funds managed by them;
- approving a technical interest rate for calculating a term pension for old age from a voluntary pensions fund;
- approval of biometric mortality tables used by a pension insurance company in determining the amount of lifelong pensions from the voluntary pension fund.

The reporting year is also significant in relation to other administrative proceedings related to the acquisition of 100% qualified interest in the capital of **pension insurance company** from an established international financial group, which confirms the stability and predictability of the insurance market.

In connection with a request received from the Bulgarian National Bank and within the bounds of competence, in 2021 a decision of FSC was issued to approve the inclusion of a bank in the list of custodian banks.

**Table 12. Administrative procedures regarding supplementary pension insurance**

Object of the procedure	Not concluded as at 31.12.2020	New in 2021	Concluded in 2021	Not concluded as at 31.12.2021
Issuance of a pension licence	-	1	1	-
Authorisation to manage a universal pension fund, an occupational pension fund, a voluntary pension fund or voluntary pension fund under occupational schemes	-	3	3	-
Approval of Regulations for the organisation and operation of a universal pension fund, occupational pension fund, voluntary pension fund or voluntary	-	30	28	2

pension fund under occupational schemes				
Approval of a member of a management or control body in a pension insurance company incl. discontinued proceedings	-	12 1	9 1	3
Authorisation to acquire or increase a qualified interest in the capital of a pension insurance company	-	1	1	-
Coordinating the selection of auditors to audit and certify the annual financial statements of the pension insurance company and its managed pension funds and payment funds incl. discontinued proceedings	-	14 1	14 1	-
Approving a technical interest rate for the calculation of an additional lifelong pension for old age	-	9	9	-
Approving a technical interest rate for calculating a term occupational pension for early retirement	-	9	9	-
Approving a risk factor for calculating the amount of additional lifetime pension for old age with a guaranteed amount	-	9	9	-
Approving a technical interest rate for calculating the amount of additional fixed-term old-age pension for insurance in a supplementary voluntary pension insurance fund	-	2	2	-
Approving biometric tables used in determining the amount	-	1	1	-

of a lifetime pension for insurance in a supplementary voluntary pension insurance fund				
Registering of lifelong pension payment funds	-	7	7	-
Registering of deferred payment funds	-	9	9	-
Coordinating on the inclusion of a bank in the list of custodian banks	-	1	1	-
Proceedings initiated ex officio	-	9	9	-
Total:	-	117	112	5

In 2021, an ongoing review of other documents submitted by the companies and the custodian banks was carried out, which, although not subject to approval, are checked from the point of view of their legality, and in case of any discrepancies in their contents, those were requested to be removed.

## 2.2. Notifications

### **Investment firms (IF), Management companies (MC), Investment funds**

In 2021 43 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. On the other hand, **20 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.

**Two notifications have been received** during the year under review from IFs from other Member States with intention to operate on the territory of the Republic of Bulgaria **through the establishment of a branch**, which were not completed during the year.

During the period, no notifications have been received for establishing measures to facilitate access to multilateral trading facilities (MTFs) or organised trading facilities (OTFs). During the period 1 notification was received for the establishment of a representative office on the territory of the Republic of Bulgaria (Cyprus).

In view of the above, the total number of IFs from Member States that can operate in our country **at the end of 2021 was 1975** (without the representative offices).

During the reporting year **notifications were received from management companies** from EU Member States in connection with their intention to **offer units of 162 classes of securities from 37 funds / sub-funds of collective investment schemes from Member States** on the territory of the Republic of Bulgaria. During the period, additional notifications were received for registration of new classes of securities of already notified funds and sub-funds. For the same period **10 notifications were received for termination of the offering of a total of 25 classes of securities, of 19 sub-funds, of collective investment schemes by Member States.**

Towards the end of 2021 **the total number** of the offered classes of securities of collective investment schemes from member states, which operate in our country, **is 1866 classes of securities of 347 funds / sub-funds of 56 collective investment schemes from Member States.**

In 2021, no notifications were received from management companies from the Member States for carrying out activities on the territory of other Member States under the terms of free provision of services. Additionally, in connection with Brexit, as of 01.01.2021, the registration of 5 MCs from the UK has been terminated in connection with the free provision of services on the territory of Bulgaria. The total number of management companies from the EU providing services on the territory of Bulgaria is **27**.

In 2021 a notification was received under Art. 17 of Directive 2009/65/EC of CBC Asset Management HB, (Belgium) to change the scope of notification of the branch, by reducing the scope of services.

In 2021, 4 notifications were received from **AIFM** from EU member states that intend to operate on the territory of the Republic of Bulgaria and 1 notification for termination of the passport. Additionally, in connection with Brexit, as of 01.01.2021, the registration of 48 AIFMs from the UK has been terminated in connection with the free provision of services on the territory of Bulgaria, which brings the total number of AIFMs from member states that intend to operate in Bulgaria to end of 2020, to 27.

In 2021, 41 notifications were received in connection with the offering of 49 **alternative investment funds** (AIF), respectively sub-funds, from EU Member States on the territory of the Republic of Bulgaria. Also, 11 alternative investment funds have terminated their passporting. At the same time, In relation to Brexit, as of 01.01.2021, 13 AIFs are not offered anymore, bringing the total number of AIF from member states offered in Bulgaria at the end of 2021 to 106.

In 2021, 23 notifications were received in connection with the offering of 30 **European venture Capital Funds** (EuVECA) from an EU Member State on the territory of the Republic of Bulgaria and 1 notification of termination of offering. In relation to Brexit, as of 01.01.2021. The registration of 4 EuVECA managers from the UK has been terminated, which brings the total number of EuVECA funds from member states available in our country to 75 by the end of 2021.

In 2021, for the first time, a notification was received in connection with the offering of an **European Social Entrepreneurship Fund** (EuSEF).

In 2021, 1 notification was considered regarding the free provision of services on the territory of the Republic of Bulgaria by a **central securities depository** from the Securities Market Agency (SMA), Slovenia, for the central securities depository KDD – Central Securities Clearing Corporation LLC, Ljubljana.

During the reporting year, FSC was notified through the notification portal created and maintained by the European Securities and Markets Authority (ESMA) **under the Prospectus Regulation for a total of 56 notifications**, of which **25 notifications for new prospectuses and 31 notifications for supplements** to prospectuses of companies from other EU member states intending to carry out public offering of securities on the territory of the Republic of Bulgaria.

During the reporting 2021, FSC has **sent 1 notifications** of a Bulgarian public company in connection with the initial public offering of shares in another EU Member State.

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

	Number as at 31.12.2020	New and concluded in 2021	Terminated in 2021	Number as at 31.12.2021
Investment firms	1_952	43	20	1_975
Management companies	32	0	5	27
Collective investment schemes (classes)	1_636	255	25	1_866
Alternative investment scheme managers	72	4	49	27
Alternative investment funds	81	49	24	106
European Venture Capital Funds (EuVECA)	50	30	5	75
European Social Entrepreneurship Funds (EuSEF)	1	0	0	1
Central securities depositories	3	1	0	4
Prospectuses	183	56	0	239
Insurance companies				
Insurance intermediaries				
Institutions for occupational retirement provision				

In 2021, notifications were considered from 2 IFs licensed by FSC regarding the intention of the companies to operate under the conditions of free provision of services without opening a branch in other Member States - respectively for 26 Member States (Austria, Belgium, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain and Sweden and Spain) and for 2 Member States (Croatia and Romania).

In the reporting period, the notifications of 10 IFs regarding changes in the notification forms in connection with their activities on the territory of other member states were examined.

During the period, notifications from 1 IF were considered for the termination of the activity carried out on the territory of Greece, Hungary, Romania, Slovenia, Italy, Poland and Spain under the conditions of free provision of services, as well as from 1 IF for the termination of the activity carried out on the territory of Austria, Belgium, Croatia, Cyprus, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain and Sweden.

In 2021, no notifications for opening or closing a branch of a Bulgarian IF were considered.

In 2021, no notifications were received from management companies of AIFMs from the Republic of Bulgaria for carrying out activities on the territory of other Member States under the conditions of free provision of services or through a branch.

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 FSC.

During the reporting period, the Financial Supervision Commission did not submit any applications for approval of prospectuses for securities issued in the Republic of Bulgaria for their admission to trading on foreign markets.

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

	Number as at 31.12.2020	Considered in 2021	Terminated in 2021	Number as at 31.12.2021
Investment firms	301	26	33	294
Management companies	3	0	0	3
Collective investment schemes	20	0	0	20
Prospectuses	4	0	0	4
Insurance companies				
Insurance brokers				
Institutions for occupational retirement provision				

### **Insurance and reinsurance**

In the first quarter of 2021, the lists of notifications received by FSC have been updated as a result of the expiration of the transition period (until 31.12.2020) following the withdrawal of the United Kingdom of Great Britain and Northern Ireland (UK) from the European Union.

In view of the expiry of the post-Brexit transition period from 01.01.2021, and in view of the introduction of a new legal framework in relation to UK-based insurers and insurance intermediaries, the notification lists are subject to updating. At the end of the transition period, FSC has not received a request for the issuance of a licence to an insurer with headquarters in the Republic of Bulgaria to operate on the territory of the Republic of Bulgaria through a branch. Also, no request was received from an applicant based in the UK for the registration of an insurance intermediary on the territory of the Republic of Bulgaria. Given the fact that after 01.01.2021 the UK is treated as a third country for the EU, it was necessary for the insurance companies and insurance intermediaries with headquarters in the UK, in respect of which before 31.12.2020 a notification of intention to operate on the territory of the Republic of Bulgaria under the conditions of the freedom to provide services, to be removed from the notification lists, as these lists reflect the intention of the insurers and insurance intermediaries with headquarters in an EU member state to carry out cross-border activity on the basis of the freedom of movement in the EU internal market.

All insurance contracts concluded by insurers with headquarters in UK for risks located on the territory of the Republic of Bulgaria remain valid until the date of their expiration or their



termination by the parties, and there is no legal restriction on these contracts continuing to be serviced.

The insurance companies based in the UK, for which FSC received notifications before 31.12.2020 regarding their intention to operate in the Republic of Bulgaria, are **222**.

The insurance intermediaries based in the Republic of Bulgaria, who had the right to carry out insurance intermediation activities on the territory of the Republic of Bulgaria under the terms of freedom to provide services or the right of establishment, before 31.12.2020, were **908 in total**. After 31.12.2020 FSC did not receive any notification regarding the intention of an insurance intermediary based in the UK to establish a subsidiary or a new intermediary on the territory of the Republic of Bulgaria.

In 2021, a total of **583 notifications** were received on the intention of insurance companies and insurance firms domiciled in other Member States to carry out or cease operation in the territory of the Republic of Bulgaria under the conditions of the freedom to provide services or the right of establishment, as well as to extend the scope of the notification sent to FSC in a previous period.

In 2021 **38 notifications** were sent to the competent authorities of EU Member States for the intention of insurance companies domiciled in the Republic of Bulgaria to carry out or cease operation on their territory, as well as to expand the scope of the notification sent to FSC in the previous period.

In 2021 **33 notifications** were sent to the competent authorities of EU Member States for the intention of insurance intermediaries domiciled in the Republic of Bulgaria to carry out or cease operation as insurance intermediaries on their territory, as well as to expand the territorial scope of the notification sent to FSC in the previous period.

As of the end of 2021, the number of insurance companies domiciled in other EU and EEA Member States, for which notifications have been sent to FSC for their intention to operate on the territory of the Republic of Bulgaria under the conditions of freedom to provide services, amounts to on **418**. The total number of insurance companies with registered office on the territory of the Republic of Bulgaria, which have stated their intention to carry out insurance activity on the territory of other EU Member States under the conditions of freedom to provide services, is **17**.

At the end of 2021, the number of insurance intermediaries from Member States that 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 (through a branch), is **2168**. The total number of insurance intermediaries domiciled in the Republic of Bulgaria that have stated their intentions to operate as insurance intermediaries on the territory of EU Member States under the terms of the freedom to provide services and right of establishment is **55 intermediaries**.

**Table 15. Notifications of foreign companies intending to operate on the territory of the Republic of Bulgaria**

	Number as at 31.12.2020	New and concluded in 2021	Terminated in 2021	Number as at 31.12.2021

Investment firms				
Management companies				
Collective investment schemes (classes)				
Alternative investment scheme managers				
Alternative investment funds				
European Venture Capital Funds (EuVECA)				
Central securities depositories				
Insurance companies	649	21	252 (including 222 from the UK)	418
Insurance intermediaries	3,123	195	1,150 (including 908 from the UK)	2,168
Institutions for occupational retirement provision	-	-	-	-

In the second quarter of 2021, FSC received a notification from the national competent authority of Hungary regarding the upcoming transfer of the insurance portfolio of NN INSURANCE JOINT STOCK COMPANY - SOFIA BRANCH, UIC 175067131 to DZI-LIFE INSURANCE EAD, UIC 121518328. FSC has sent a letter giving agreement and a certificate of solvency to the underwriting insurer, after a meeting held on 17.06.2021.

At the end of 2021, the only insurer based in the Republic of Bulgaria who declared the intention to carry out activities under the right of establishment and established branches on the territory of the Republic of Greece (17.08.2017) and the United Kingdom of Great Britain and Northern Ireland (22.12.2020) d.), is IC EUROINS AD.

### **Supplementary pension insurance**

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 2021.

**Table 16. Notifications of Bulgarian companies intending to operate on the territory of other Member States**

	Number as at 31.12.2020	New in 2021	Terminated in 2021	Number as at 31.12.2021
Institutions for occupational retirement provision	-	-	-	-

### 2.3. Certification

#### Investment firms

In 2021, one examination session was held for acquiring the right to operate as a broker of financial instruments and as an investment consultant - on 25.09.2021 an examination was held for brokers of financial instruments and on 26.09.2021 - for investment consultants. A total of 50 persons were admitted to the exam, of which 21 candidates were admitted to acquire the right to exercise activity as a broker of financial instruments, and 29 candidates to become an investment consultant. A total of 32 people passed the exams (15 for brokers, with 17 candidates taking the exam and 17 for investment consultants, with 25 candidates actually taking the exam). Certificates were issued to 32 persons who passed the exam.

Additionally, in 2021, 5 certificates were issued as a result of recognized legal capacity, of which 2 certificates for operating as a broker of financial instruments and 3 certificates for operating as an investment consultant. In the reporting 2021 no refusals was issued to recognise the acquired qualification to operate as a broker of financial instruments or an investment consultant.

In 2021, 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.

**Table 17. Dynamics of certified persons**

	2017	2018	2019	2020	2021
Investment consultants	31 (21)	14 (9)	23 (13)	2 (0)	20 (17)
Brokers of financial instruments	(14)	(45)	(17)	(0)	17 (15)
Insurance brokers					
Actuaries					

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 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.

### Supplementary pension insurance

During the reporting year, there were no applications in the Insurance Supervision Division for recognition of legal capacity of a responsible actuary. Taking into account the systemic importance of the actuarial function in the field of insurance, pension insurance and financial audit, the operation of conservative procedures for admission to the examination and recognition of legal capacity of a responsible actuary, as well as unsatisfactory performance and, accordingly, lack of interest in the actuarial profession, are a prerequisite for initiation of changes in Ordinance No. 31 from 2.08.2006 for the conditions and procedure for conducting an examination and for recognizing the legal capacity of a responsible actuary, for recognition of legal capacity acquired outside the Republic of Bulgaria, for the form of the actuarial certificate, the form and content of the actuarial report and of the reports under the Insurance Code, which the responsible actuary certifies, as well as the form and mandatory content of the annual actuarial report under the Social Insurance Code.



### **3. Supervisory activity**

#### **3.1. Off-site supervision**

Off-site supervision is an independent part of the supervisory activity, which involves analysis of information received by FSC. It ensures constant monitoring and periodic assessment of the condition of the supervised entities and the results of their activities. The aim is regular monitoring of compliance with the regulations by investment firms (IFs) and in particular assessment of the financial status of each IF, as well as the legality of their activities. The received information allows the supervisory body to react in a timely manner to emerging problems and inconsistencies with regulatory requirements, in order to achieve the statutory objectives of the regulator - to protect the interests of investors and users of services and ensure transparency and information for market participants. During the reporting period, 15,546 inspections were carried out, including 144 inspections on the financial status of investment firms, as approved on the basis of Art. 70, para. 2 of Ordinance No. 50 of 19.06.2015 on the capital adequacy, liquidity of investment firms and supervision of their compliance (Ordinance No. 50) and in accordance with Order No. 218/10.07.2015 of the Deputy Chairperson of FSC, in charge of Investment Activity Supervision Division, forms, 624 inspections of owned client assets, allocated to those subject to and not subject to compensation by the Investor Compensation Fund, 14,494 inspections of concluded transactions with financial instruments admitted to trading on a regulated market, 284 inspections on the capital adequacy and liquidity of investment firms in accordance with the requirements of Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26.06.2013, on the 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, 52 reports on the results of the performed monitoring of the risks according to the requirements of Art. 52 of Ordinance No. 38 on the requirements for the activity of investment firms.

In the reporting period 1,408 notifications were reviewed and analysed, which were 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.

Also 228 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 licence to conduct investment intermediation activities, which was subject to investigations by law enforcement agencies, so signals were prepared and sent to them.

Orders have been prepared for entering 1,054 circumstances regarding the activity of investment firms, investment advisers, brokers of financial instruments and BSE AD.

Proposals have been prepared for Commission meetings regarding the determination of the level of countercyclical capital buffer applicable to third countries. During the reporting period, it was monitored whether there will be a change in the level of the countercyclical buffer for the Republic of Bulgaria, determined by the Bulgarian National Bank.

In the second quarter of 2021, a request was received and considered from an investment firms to obtain a permit under Art. 26, paragraph 2 of Regulation (EU) No. 575/2013 on the inclusion of the company's annual profit for 2020 in the common equity tier-1 capital.

During the same period, 2 signals regarding the trading of shares from the capital of a public company were examined.

In the second quarter of 2021, a notification under Art. 103, paragraph 2 of the MFIA for the use of algorithmic trading by an investment firms from a member state.

The recognition of the level of the countercyclical buffer determined by the BNB and its adoption by FSC, as well as the determination of a significant third country, will be carried out when it is established that an investment intermediary holding a licence issued by the Commission falls within the scope of Article 1 paragraphs 2 and 5 of Regulation (EU) 2019/2033.

With a view to Regulation (EU) 2019/2033 becoming effective from 26.06.2021, a letter was sent to investment firms with a request to provide information on whether they defined themselves as Union parent investment firms or as Union parent investment holdings, or as Union parent mixed financial holdings from the Union within the meaning of said regulation.

A letter sent to investment firms that are not bank investment firms in connection with reporting of information under Art. 54, paragraph 1 of Regulation (EU) 2019/2033 of the European Parliament and of the Council of 27.11.2019 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(Regulation (EU) 2019/2033) in relation to the new prudential supervision of investment firms.

Prepared summary information in connection with reporting of master data for investment firms (BG master data IF) and preparation of a technical and business assignment for the development of a technical solution for reporting by investment firms in XBRL format to the EBO and in connection with the EBA-SUP project.

In 2021, in the course of the supervision, 6 coercive administrative measures were applied to investment firms, 1 of which was applied by a decision of the Commission, and the remaining 5 are related to taking specific measures. The same have been applied by the Deputy Chairperson of the Commission in charge of the Investment Activity Supervision Division in connection with established violations of the applicable regulations.

### **Collective investment schemes and management companies**

The scope of the off-site supervision performed by FSC with regard to CISs and MCs covers the annual financial statements regularly submitted to FSC, the semi-annual 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 156 annual, 127 semi-annual and 119 quarterly financial reports**, as well as **1590 monthly balance sheets** of the management companies of CISs were performed. During the year, **739 inspections of documents** received by FSC, including through the unified system e-Register for providing information electronically, established and maintained by FSC 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 CISOUCA, 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 2021 FSC has received and accordingly **checked 3,239 reports with summarized information** for the determined issue values and redemption prices of the shares of the CISs managed by the companies.

With regard to the **information submitted regularly (twice a year) by MCs**, during the year, **61 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.

Regarding the supervision of the compliance with the investment restrictions by MCs in the managed CIS portfolios, **157 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 MCs.

As a result of the documentary inspections during the off-site supervision, with **51 orders** of the Deputy Chairperson of FSC in charge of the Investment Activity Supervision Division, a total of **1,135 entries of circumstances** were made in the public register kept by FSC regarding MCs and CISs.

In connection with the off-site supervision of the activities of MCs and the CISs organised and managed by them, during the reporting period **1 proceeding was opened for the issuance of an individual administrative act to apply a coercive administrative measure** for non-fulfilment of certain statutory obligations regarding the publication on the website of the MC of the semi-annual reports for the first half of 2021 of the CISs managed by it, with the content under Art. 75 of Ordinance No. 44. Given the fact that the company has fulfilled its obligations before issuing the coercive administrative measure, the open proceeding was terminated.

In the course of the off-site supervision **54 inquiries and requests for opinions** were examined from legal entities, incl. supervised entities, foreign persons, as well as from natural persons, as each of them has been analysed and the necessary actions have been taken in order to systematize the information necessary for preparation of a response to the persons.

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, **398 applications** for the updating of the webpage of FSC were prepared during the reporting period, based on which a total of **5093 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 a total of **9 circular letters were sent to MCs, namely:**

- In view of the supervision of the investments in CISs and in connection with the exit of the United Kingdom from the European Union during the reporting period FSC, on the proposal of the Deputy Chairperson in charge of the Investment Supervision Division, made Decision No. 145 - KHC of 23.03. 2021, which approved a list of regulated markets under Art. 38, para. 1, items



3, 4 and item 7 of the CISOU CIA and defined the supervision carried out over them as equivalent to the law of the European Union for the purposes of Art. 38, para. 1, item 5 of CISOU CIA, and in this connection during the reporting period, 1 circular letter was sent to MCs;

- In connection with the implementation of the supervisory powers of FSC and with a view to the correct and accurate application by all management companies of the requirements of Commission Regulation (EU) No 583/2010 of 01.07.2010 implementing Directive 2009/65/EC of the European Parliament and of the Council as regards key investor information and conditions to be met when providing key investor information or the prospectus in a durable medium other than paper or by means of a website, during the reporting period, 1 circular letter was sent to MCs and BAAMC.

- In connection with the strict compliance with the obligations arising from Regulation (EU) 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, as well as with a view to complying with the applicable Guidelines on reporting under Articles 4 and 12 of the Regulation, in the case of concluded financing transactions with securities falling within the definition under Art. 3, item 11 of the Regulation, 1 circular reminder letter was sent to MCs, BAAMC and AIFM to comply with the requirements of Regulation (EU) 2015/2365;

- In connection with ESMA's 2020 Common Supervisory Action (CSA) on UCITS liquidity risk management, 1 circular letter was sent to MCs and BAAMC during the reporting period, informing companies of the disclosed results, while at the same time paid attention to the need for more in-depth analysis when carrying out risk management activities related to UCITS liquidity;

- In connection with the implementation of the supervisory powers of FSC and with a view to verifying compliance with the requirements of Art. 105b of the CISOU CIA during the reporting period, 1 circular letter was sent to MCs;

- In connection with a study of the adopted approach in the application of Art. 21, para. 10 of CISOU CIA and Art. 59, para. 1, first sentence, of Ordinance No. 44, 1 circular letter was sent to MCs, requesting information about their practice;

- On the occasion of an inquiry received by the European Securities and Markets Authority, 1 circular letter was sent to MCs, requesting information on whether the companies participated 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.

- In connection with the need to comply with the requirements of the applicable provisions of Ordinance No. 38, 1 circular letter with instructions was sent to all MCs and BAAMC;

- In connection with clarification of the upcoming obligations under Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088, which is effective from 01.01.2022, 1 circular letter was sent to all MCs.

During the reporting period FSC, together with the other national competent authorities of the EU Member States, participated in the Common Supervisory Action undertaken by ESMA on the management of UCITS liquidity risk. The issue of costs and fees of the UCITS is of key importance for the protection of investors, and in this connection a review was carried out of the fees charged and paid on behalf of the UCITS, as well as of the internal rules and procedures and the way of determining and reviewing the fees. The results of the conducted supervisory action were reported to ESMA on 31.12.2021.

**Bringing the activity of all MCs in line with the requirements of Ordinance No. 38** is the other focus topic of supervision in 2021. For this purpose, an inspection was carried out of the rules and policies of MCs and their compliance units, as well as the submitted applications under Art. 46, para. 3 of Ordinance No. 38.

During the reporting period, the **off-site inspections of 6 MCs** continued in connection with the additional services provided by them under Art. 86, para. 2 of the CISOU CIA – portfolio management at own discretion, without special orders of the client, and investment consultations. The inspections are concluded with a special report which reflects the results.

During the reporting period, **1 thematic off-site inspection** was performed regarding the obligation of MCs in relation to Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27.11.2019 regarding the disclosure of information on sustainability in the financial services sector (Regulation (EU) 2019/2088) and the obligation for the preparation of policies for the integration of risks, disclosure of information on the Internet pages and updating of the remuneration policies of MCs and the prospectuses of CISs. **16 letters** have been sent in connection with non-conformities with the requirements of the regulation.

During the reporting period, **inspections of all MCs** were performed on the occasion of their obligation to annually publish on their website the information under Art. 105a, para. 3 of the CISOU CIA for implementation of the engagement policy, within 3 months after the end of the financial year in which the right to vote was exercised. As a result of the inspection, it was found that 1 MC did not publish the information, and for the established violation of Art. 105a, para. 3, in connection with para. 7 of the CISOU CIA, in connection with § 29, para. 2 of the Final Provisions to the CISOU CIA, an AEA V is drawn up.

Given the regulatory obligation of MCs to periodically disclose and update the information necessary for investors to make a reasoned and informed investment decision, in 2021 the regular thorough inspections of the web pages of all MCs continued, and in relation to the identified non-conformities, appropriate supervisory actions were taken in a timely manner.

Another highlight of the remote inspections during the reporting period is the compliance of the internal documents of the MCs with the regulatory requirements caused by changes in the current regulations. Inspections and analysis of the content of policies, procedures, rules, prospectuses and SGEIs were carried out, and in relation to the identified non-conformities, corrections were required by the supervised entities.

### **Other collective investment undertakings**

The object of off-site supervision carried out by FSC are also other collective investment undertakings, such as the sovereign wealth funds (SWFs), representing a type of alternative

investment funds (AIFs), as well as the alternative investment funds managers (AIFMs) in relation to their activity. In this regard, during the reporting period **documentary inspections** was carried out of the **4** annual, **5** biannual, **11** quarterly financial statements and **117** monthly balance sheets of the SWFs regularly submitted to FSC, as well as **inspections** of the information disclosed every six months by all AIFMs about the AIFs managed by them. The information submitted by the AIFMs to FSC is reported to ESMA through the platform created for the purpose.

In connection with the convening and holding of **general meetings of the shareholders of closed-end SWFs** in 2021, **13 inspections of documents were carried out** with regard to the compliance with the obligation to announce to FSC and the Commercial Register and Register of Non-Profit Legal Entities 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 closed-end SWFs** during the reporting year **41 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 in charge of the Investment Activity Supervision Division, **74 entries of circumstances** were made in the public registers of SWFs and AIFMs kept by FSC.

Regarding the activities of AIFMs during the reporting period, they were sent a total of **86 letters** in connection with the fulfilment of the reporting obligation for the first six months of 2021 of the information under Art. 110, paragraph 1 of Commission Delegated Regulation (EU) No 231/2013 of 19 December 2012 supplementing Directive 2011/61/EU of the European Parliament and of the Council with regard to exemptions, general operating conditions, depositaries, leverage, transparency and supervision, as well as in connection with inspections carried out regarding the investments made at the expense of the alternative investment funds managed by AIFMs.

**1 circular letter has been sent to AIFM** in relation to complying with the requirements of Regulation (EU) 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 and the Guidelines on reporting under Articles 4 and 12 of the Securities Financing Transactions Regulation.

During the reporting period, a thematic inspection was carried out regarding compliance with the investment strategy of all AIFs.

The results of document inspections carried out during the reporting year, as well as financial statements and other regulated information, are objectified in special reports, and in 2021, in connection with the supervision of MCs and CISs, respectively AIFMs and the AIFs managed by them, **a total of 33 reports** were prepared.

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 **87 acts were established during the reporting year for establishing administrative violations** in their activity as well as that of other collective investment undertakings. The detected violations are related to non-compliance with the provisions of Art. 153, para. 1 of Ordinance No. 44 in conjunction with Art. 90, para. 10 of the CISOUCA, insofar as the minimum liquid assets of a management company are in an amount smaller than the amount of the current payables of the

company with a maturity of up to 3 months; for non-compliance with Art. 72, para. 4 of Ordinance 44 on publication on the web page of the MC of summarized information on the structure of the MF portfolio; for violation of the provision of Art. 45, para. 4 of the CISOU CIA, since as a result of concluded transactions for the purchase of shares, the total value of the investments issued by one person amounts to more than 10% of the total value of the assets in the MF's portfolio; for violation of Art. 216, para. 5, proposal one of the CISOU CIA regarding failure to notify FSC within the legally established period of the fact that the company did not start operating within 12 months of its entry in FSC register; for not submitting to FSC within the statutory period a list of persons who have an indirect qualified shareholding in the MC, as well as data on the votes held by them in the general meeting in accordance with the requirement of art. 60, para. 2 of the MFIA in connection with § 4, para. 2 of the Additional Provisions of the MFIA; for non-compliance with the provision of Art. 64, para. 2 of the CISOU CIA due to failure to submit to FSC within the statutory period of summary information on the issue values and redemption prices of units in the MF managed by the MC; for a violation of the provision of Art. 92, para. 2 of the CISOU CIA, due to failure to submit to FSC until the 10th of the month following the quarter a balance sheet and statement of profit and loss as of the last date of the relevant quarter of 2021, as well as a quarterly Capital adequacy and liquidity report (CALR); for violation of the provision of Art. 90, para. 2, sentence three of the CISOU CIA in connection with Art. 26, paragraph 2 of Regulation (EU) No. 575/2013 and for not updating the prospectus of the MF within the statutory period in accordance with changes made to the rules of the fund pursuant to Art. 56, para. 1 of the CISOU CIA.

### **Off-site supervision for the purposes of a risk-based approach to the prevention of money laundering and terrorist financing in the financial instruments trading sector**

In its capacity as a competent AML/CFT authority FSC develops, implements, reviews and improves the model for risk-based supervision in accordance with the Guidelines for risk-based supervision issued jointly by the EBA, ESMA and EIOPA in accordance with the requirements of Art. 48, paragraph 10 of Directive (EU) 2015/849 and pursuant to Art. 114 and Art. 115 of the Law on Measures against Money Laundering (LMML). Off-site supervision covering the “Trading in financial instruments” sector is exercised in the form of:

- Common annual off-site supervision, which includes as a minimum:
  - collection of information on the Internal rules for control and prevention of money laundering and the financing of terrorism under Art. 101 of the LMML;
  - the group policies under Art. 104 of the LMML;
  - the risk assessments under Art. 98 of the LMML and Art. 60 of the Regulations for Implementation of the LMML (RILMML);
  - other information collected through special questionnaires for the purposes of remote supervision, including for the purposes of the Sectoral Risk Assessment and risk profiling of participants in the “Trading in Financial Instruments” sector;
- Periodic review (every 6 months) of documents (reports) through which the fulfilment of the duties of the Specialized Services under the LMML and of the internal audit units (where applicable) is established.

For the purposes of the annual planning of supervisory actions in connection with the implementation of specialized supervision on the prevention of money laundering and terrorist financing, in 2021 the Commission carried out a risk assessment and determination of the risk profile of each of the following supervised entities:

- 36 non-banking investment firms
- 19 banks - investment firms and branches of foreign banks - investment firms;
- 30 management companies and branches of foreign management companies.

The risk assessment and determination of the risk profile of each of the supervised entities was carried out on the basis of both the annual off-site supervision carried out for the period from 01.01.2020 to 31.12.2020 and the results of the on-site inspections carried out according to the accepted annual plan for 2021 for specialized supervision of investment firms and management companies for the implementation of measures for the prevention of money laundering and the financing of terrorism. The used methodology and evaluation factors are presented in detail in the Manual on risk-based supervision for the prevention of money laundering and the financing of terrorism, approved by Order No. Ж-317 of 16.12.2020 of the chairman of FSC, section 2.2.6. “Risk factors specific to investment firms” and section 2.2.7. “Risk factors specific to management companies.”

As a result of the off-site supervision carried out in the “Trading in financial instruments” sector, FSC has established a strategy regarding the frequency and intensity of on-site inspections to comply with the requirements of the AML/CFT preventive legislation, as well as a common supervisory action plan for 2022, and the individual plans for each of the supervised entities - non-banking investment firms, banks - investment firms and management companies.

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

Off-site supervision of public companies, special purpose investment companies (SPICs) and other issuers of securities covers verification of the financial statements provided by FSC and the public, through the media, individual annual, biannual and quarterly financial statements, or quarterly financial statements, as well as consolidated ones submitted by issuers who are required to prepare consolidated financial statements. In addition, off-site supervision covers a review of the fulfilment of the obligations of bond issuers to submit to FSC, BSE and the public a report on the fulfilment of their obligations under the terms of the bond issue and to the bondholders' trustees to submit to FSC and on the regulated market where the bonds are traded, a report for the respective reporting period.

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 2020 the effective interaction and exchange of information between FSC and the BSE continued, which to a significant extent is 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 FSC, the BSE AD and the public. In addition to the above-mentioned reports, in 2021 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 2021 **document inspections were performed on 3,941** financial statements. As a result of ongoing supervision **139 thematic inspections were initiated**, mainly related to the analysis of additionally required data from the supervised entities, who submitted to FSC and to the public financial reports on the observance of mandatory provisions of the POSA. AEAVs have been drawn up for the established violations.

As a result of the selection procedure carried out according to the methodology adopted by FSC for the selection of the review of the financial statements of public companies, other issuers of securities and special purpose investment companies, based on a mixed model, where a risk-based approach is combined with sampling and rotation approach, 40 companies have been designated to have their 2020 annual financial statements (individual and consolidated) audited for compliance with International Financial Reporting Standards (IFRS), ESMA guidelines adopted by FSC, as well as verification regarding the proper and full disclosures in the financial statements of the companies, in accordance with the IFRS, according to the standards specifically stated in the Public Statement, for which ESMA has recommended that a verification be carried out in the financial statements.

As a result of the performed inspection and the identified non-conformities in some of the issuers' annual statements, the following supervisory measures were taken:

- 13 letters were sent with a request for correction in the future financial statements in the subsequent annual consolidated and individual statements of the companies;
- 6 administrative proceedings for the application of CAM were opened with a request for correction in the relevant statements, 4 were terminated, and 2 PAMs were applied with a decision.

In connection with the convening and holding of **general meetings of shareholders** of public companies and **general meetings of bondholders** of issuers of securities in 2021, **1,162 documentary inspections were carried out** of the content and timely submission to 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. AEAVs have been drawn up for the established violations.

In 2021 on **the disclosure of a significant holding in the capital of a public company or the change in such a circumstance**, **23 inspections were carried out** of the information regularly received from CD and the notifications submitted to the Commission. AEAVs 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 2,180 disclosures using electronic forms for disclosure of inside information in 2021 that were analysed in the course of the off-site supervision.**

As a result of the off-site inspections of the annual, biannual and quarterly financial statements and quarterly notifications on the financial condition (individual and consolidated) presented by FSC and published through the media by public companies, bond issuers and SPICs, reports on the fulfilment 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, 201 administrative proceedings for issuing individual administrative acts for application of coercive administrative measures were opened.** Due to the non-performance of the statutory obligations, which have not been fulfilled and following the initiation of administrative proceedings for issuing individual administrative acts for application of coercive administrative measures, **105 decisions were issued** obliging the supervised entities to bring their activity in compliance with the legal requirements, through observance of specific actions and measures.

As a result of the performance of statutory obligations, following the initiation of the administrative proceedings, **68 of these were terminated.**

During the period **27** letters were sent requesting the presentation of financial reporting information, as well as in connection with deficiencies in already submitted financial statements of companies supervised by the department.

In the course of the current supervision, during the reporting period they are **6,211 electronic forms were received and processed** in the electronic information disclosure system e-Register. 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 FSCA, in the course of the off-site supervision of public companies, issuers of securities and REITs in 2021 are issued orders on paper for a total **617** entries.

Through an independent module "E-REGISTER 1D" in the unified electronic system for receipt of information from 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 **614 applications for registration / deletion, title forms and reports** were received and processed in 2021.

During 2021, **a total of 152 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. 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 entities or from third parties. An assessment was made of the compliance with the respective applicable legislation and a total of **107 responses were prepared which were sent directly to the persons, and the rest**

were made under **Art. 28 of the Regulations on the Structure and Activities of 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 2021, a total of **421** AEAVs 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 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).

Off-site supervision in 2021 is based on annual and periodic reports, reports of insurers and reinsurers, insurance groups, the Guarantee Fund and insurance brokers submitted to FSC in accordance with the reporting obligations to the supervisory authority in accordance with the requirements of Art. 126 of the IC and Art. 311, para. 3 of the IC, as well as the required additional information for certain areas of their activity. During the year, 663 off-site inspections of documents of insurers, reinsurers, insurance groups and the Guarantee Fund and 676 of insurance brokers, who were active in the reporting year 2020 and 2021, were carried out.

### **Insurers and reinsurers**

In 2021 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. Particular attention was paid to the effect of the observed increase in the symmetric adjustment (an adjustment to the capital charge on securities applied to cover the risk arising from changes in the level of security prices during the reporting period) to the sub-module of risk related to shares on the coverage of the Solvency Capital Requirement. As a result of the inspections carried out, 2 insurance companies were requested to recalculate the solvency capital requirement as of 30.09.2021, and 1 insurer was requested to take measures in case of violation of the minimum threshold for coverage of the minimum capital requirement.

In respect of insurers without the right to access the single market in 2021, an inspection was carried out on the adequacy of the amount of own funds to cover the solvency margin/guarantee capital and compliance with the solvency requirements at the end of each quarter. A review was also carried out of the assets to cover the technical provisions of insurers without the right to access the single market and their compliance with the statutory requirements in respect of the types of assets and their structure, 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.

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 for compliance of the information with the Guidelines of the European Insurance and Occupational Pensions Authority. Letters have been sent to insurers with recommendations to supplement these reports. The monthly reports received from the trustees of IC Nadezhda AD and TUMICO, whose licence to carry out insurance activity was revoked in 2017, were also reviewed.

Based on the EIOPA Guidelines to support effective dialogue between supervisors and statutory auditors and audit firms carrying out statutory audits of these companies (EIOPA16/858), a number of working meetings were held with some of the audit firms approved to verify and certify the annual financial statements of insurers and reinsurers for 2020. As a result of the COVID-19 pandemic and the restrictive measures introduced, meetings were held remotely through conference calls. During the meetings, a number of issues were discussed to be taken into account by the audit firms when performing the audit of the insurance and reinsurance companies.

In addition to the above, remote checks were carried out in 2021 of the data in the incoming periodic reports and reports from the insurers and reinsurers and of the value of the shares owned by the insurers, which are traded on a regulated market, with the aim of fulfilling Art. 77a of Ordinance 53 of 23.12.2016 by the end of each quarter of 2021. In certain cases, corrections were required of the data in the statements and reports, as well as additional information regarding:

- separate categories of assets from the Solvency II balance sheet and the Financial position report under Ordinance No 53;
- presence of discrepancies between the information submitted in the individual statements;
  - policies and internal rules of insurers;
  - concluded reinsurance contracts;
  - results of applied stress scenarios;
  - the activity carried out by insurers in other member states under the terms of the right of establishment and the freedom to provide services.

During the reporting year, one notification was considered from an insurer of a change in its intention to pay a dividend was received during the year. In this connection additional information was requested and subsequently analysed.

Also, during the considered period, a contract for subordinated term debt was received and analysed and the grounds for it to be reported under Solvency II as Tier 1 limited capital. As a result instructions were sent for bringing the contract into compliance with the requirements of Art. 71 of Delegated Regulation (EU) 2015/35 in order to recognize the funds as Tier 1 limited capital.

The off-site supervision of insurers also included a verification of the sufficiency of the established technical provisions. In this regard, the following was done in 2021:

- 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 FSC.

- review of the reports submitted to FSC by the insurers with the periodic reporting and of the data on the paid insurance claims under item 10.1 of section II (A) of Annex No. 1 of the Insurance Code in the electronic information system for risk assessment, management, and control, maintained by the Guarantee Fund and any discrepancies found were communicated to the respective insurer.

- verification of the information received according to Order No. 3-324 from 24.09.2019 from the insurers;

- 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, decisions have been issued for approval of a method for forming a reserve for claims arising but not filed as of 31.12.2020 and currently in 2021;

- two decisions was also issued approving a method for forming another reserve;

- Based on the information received from the insurers under Art. 125 and Art. 126 of the IC for the development of the market insurance portfolio by classes of insurance under Section II of Annex No. 1 of the IC calculations were performed in connection with Art. 91, para. 3, item 2 of Ordinance No. 53. A methodology of a database for the period 2009 - 2019 has been used for determining the minimum percentages under Art. 91, para. 3, item 2 of Ordinance No. 53. A database methodology for the period 2009 - 2019 has been used for determining the minimum percentages under Art. 91, para. 3, item 2 of Ordinance No. 53. In this regard, a procedure was opened for issuing a general administrative act for determining minimum percentages in connection with Art. 91, para. 3, item 2 of Ordinance No. 53, which should be used by insurers who do not have sufficiently representative and reliable statistics for the development of claims in determining the amount of the reserve for incurred but not filed claims by insurance classes under Section II of Annex No. 1 of the IC (with the exception of item 10.1. Any insurance against damages arising from the use of land motor vehicles) as of 31.12.2020 and currently in 2021;

- By the end of each quarter of 2021, inspections were 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.

- Regular review of the reports submitted to 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.

- 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 FSC website according to Art. 86, para 11 of Ordinance No 53.

In connection with the performed off-site supervision over the activity of insurers and reinsurers in 2021, **1 proceeding was initiated for issuance of an individual administrative act for the application of coercive administrative measures.** Given the fulfilment of the obligations specified in the disposition before issuing the administrative act, the open proceedings were terminated. Based on established violations of the regulations in 2021. **7 acts to establish an administrative violation were drawn up and delivered.**

## **Supervisory actions regarding the activity of insurance companies under Guarantee insurance**

In 2021, a study of the activity of insurance companies under Guarantee insurance was conducted. Initially, with a letter to all insurers reporting activity under Guarantee insurance, information related to 31.12.2020 and 31.03.2021 was requested for all active policies under Guarantee insurance concluded in connection with Art. 111, para. 5, item 3 of the Public Procurement Act: number of active contracts; insurance amount; premium accrued ; premium received; unearned premium reserve ; availability of reinsurance coverage and type of coverage. In addition, from some of the insurance companies copies of insurance contracts were requested. The received information is analysed and compared with the information reported by the insurers in the regular reporting. Inconsistencies and discrepancies were established in the reporting of some insurance companies, which necessitated corrections to already submitted periodic statements and reports.

### **Risk based supervision**

Based on the Solvency Risk Assessment Framework approved by FSC, which consists of a manual for risk-based supervision and risk matrix, a quantitative and qualitative analysis of each insurer and reinsurer was performed in 2021 in order to prepare an impact assessment and risk assessment. For a more detailed assessment, internal documents of the insurers and reports of the actuarial function were additionally required and analysed, according to Art. 272 of Delegated Regulation (EU) 2015/35. Reports were prepared as a result of the analyses, as each insurer and reinsurer is categorized on a scale with 4 categories (1 - low risk; 2 - medium to low risk; 3 - medium to high risk and 4 - high risk). The results of the analyses are reflected in the Annual Supervisory Plan for 2021, which consists of all measures planned for each insurer and reinsurer based on a risk-based review.

### **Actions in connection with Bulgaria's accession to ERM II**

In connection with the accession of the Republic of Bulgaria to the Exchange Rate Mechanism (ERM II) and on the basis of the agreed Action Plan between FSC and EIOPA, in 2021 there was correspondence on the implementation of the plan, including insurers and areas where progress was achieved.

### **Participation in colleges of supervisors and cooperation platforms**

In 2021 FSC took part in the work of the colleges of supervisors in which it participates. Employees of ISD/ FSC participated in the meetings of the supervisory bodies held during the year, as well as in the regular exchange of information between them. Meetings of the supervisory bodies of the college of the Euroins Insurance Group were held, for which FSC is a group supervisor. It should be noted that, in fulfilment of recommendations made to FSC from a peer review of the management of the activity of participation in colleges by the supervisory authorities of the member states, an online tool for the activity of the colleges was developed at the end of 2021.

In addition there was a periodic exchange of information and conference talks between representatives of ISD/ FSC, the competent supervisory authorities of the Hellenic Republic and EIOPA regarding the activities of Bulgarian insurers, subject to the freedom to provide services in the Hellenic Republic. .

### **Cooperation with other supervisory authorities**

In connection with the acquisition of sole control over NN Pension Insurance Company EAD and the entire commercial enterprise of NN Insurance Joint Stock Company - Sofia branch by DZI Life Insurance EAD, conference calls were held with representatives of the National Bank in 2021 of Belgium, supervisory authority of the KBC group and the Central Bank of Hungary.

### **Interactions with institutions in Bulgaria**

In connection with the upcoming entry into force of IFRS 17 - Insurance Contracts from 01.01.2023, the Insurance Supervision Division requested information on the stage of preparation of insurance and reinsurance companies regarding the expected entry into force of IFRS 17, including planned or conducted employee trainings, planned or implemented changes in information systems and internal rules and procedures, additional actions and deadlines for their implementation, as well as any other relevant information. On the basis of the answers received, an analysis of the summarized results was prepared, as well as a letter to the Association of Bulgarian Insurers (ABI) with a proposal that the association should familiarize its members with the summarized information, as well as to designate representatives who, together with employees of FSC, should be included in a task force for preparing a draft for amending and supplementing the regulatory framework related to the supervisory reporting of insurers and reinsurers, in connection with the entry into force of IFRS 17. During its weekly meetings, the stage of introduction of the new standard by the insurance companies was discussed; the information that the companies will be able to provide to FSC and, accordingly, its periodicity (monthly, quarterly, annually); the information to be published by FSC, as well as drafts of the quarterly balance sheet and statement of comprehensive income, including additional quarterly and annual statements.

Also in 2021, a tripartite working meeting was held between representatives of FSC, the National Bureau of Bulgarian Motor Insurers (NBBMI) and an insurance company, discussing an agreement on the measures to be taken jointly by NBBMI and the insurance company in order to reduce the insurer's obligations to the bureau and to other participants in the Green Card system, as well as the requirement of additional references and information from the parties.

### **Insurance intermediaries**

During the year, a total **693 off-site document checks of insurance brokers** were carried out. The reviewed information includes annual and periodic reports and reports from the insurance brokers based in the Republic of Bulgaria, submitted to FSC in accordance with the reporting obligations to the supervisory body according to the requirements of Art. 311, para. 3 of the IC.

### **Actions taken according to the reports and statements submitted through the Insurance Supervision online portal**

According to Art. 311, para. 3, items 1 and 2 of the Insurance Code, insurance brokers submit annual and biannual reports and statements to FSC - by January 31 of the year following the year to which they apply, respectively for the six-month period by July 31 of the respective year by model approved with Order No. 332 of the Deputy Chairperson in charge of the Insurance Supervision Division dated 15.10.2012, supplemented by Order No. 10 of the Deputy Chairperson in charge of the Insurance Supervision Department dated 13.01.2016. According to the regulations, during the calendar year 2021 **676** off-site inspections have been carried out of the submitted statements and reports through the Insurance Supervision online portal by insurance brokers who were active in the reporting year 2020 and 2021.

According to the most recently submitted annual statements and reports, **17 insurance brokers have chosen to guarantee their activities with their own funds** according to Art. 306, para. 1 item 1 of the Insurance Code. As of 31.03.2021, 16 of them have provided annual financial statements (AFS) for the previous year 2020, pursuant to Art. 311, para. 3, item 3 of the IC, and 1 submitted it after the deadline. In connection with an off-site inspection, it was found that the insurance brokers have sufficient capitalisation to maintain a permanent equity capital of 4 percent of the total amount of insurance premiums under insurance and/or reinsurance contracts concluded with its mediation during the previous financial year, but not less than BGN 40,000. In view of this, all insurance brokers who choose to guarantee their activity in this way meet the requirements of Art. 311, para. 3, item 3 of the IC.

#### **Actions to update the information in the forms for the submission of periodic statements of insurance brokers.**

According to the published monthly lists of insurers from EU member states that have declared their intention to operate on the territory of the Republic of Bulgaria under the terms of the freedom to provide services, actions are taken monthly to update the codes in the form for filling out statements submitted through the electronic portal of FSC from the insurance brokers, for appendix 2.3. Insurance intermediation for non-life insurers and 2.7. Insurance intermediation for life insurers.

At the end of the reporting period **codes were given to 534 insurers** who declared their intention to operate on the territory of the Republic of Bulgaria under the terms of freedom to provide services.

#### **Corrections to the information in the Register of Insurance Agents kept by the Commission**

In order to ensure the correctness of the data in the register of insurance agents and intermediaries offering insurance products as an additional activity maintained by FSC, during the reporting period 11 individual corrections were submitted related to the merger of companies, as a result of incorrectly submitted data, transfer of information from legal entities to sole traders, clearing of duplicate records, etc.

#### **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 pension insurance companies (PICs) websites.

Daily supervision is carried out on the basis of the daily reports received from PICs on the activity of supplementary pension insurance funds (SPF) and from the custodian banks on the activity of SPF and payment funds (PFs). At the end of each month, PICs also submit detailed information about the assets of PFs. In 2021, 7,821 daily inspections were carried out. They monitor the legality of transactions with the assets of pension funds, incl. compliance with legal restrictions and prohibitions on investing the assets of the funds, investments held in one issuer, the manner of performing the valuation of the assets and their proper recording by the PIC and the registers of the custodian banks. During the daily supervision on the activity of pension funds, the correct deduction of the investment fee and the deduction from each insurance contribution to the supplementary mandatory pension insurance funds, the change in the value of net assets, the correct determination of the number of units corresponding to the received and withdrawn amounts, as well as the correct calculation of the value of one unit are monitored,. Regarding the payment funds, the correct deduction of the fee under Art. 201, para. 1, item 3 of the Social Insurance Code (SIC) is also monitored. The results of daily supervision are reflected in daily forms, in the analytical monthly reports on the activity of each PIC and the funds managed by it, as well as in ad-hoc reports and report memos.

Periodic supervision is carried out on the basis of monthly, quarterly and annual financial reports and statements on the activity of PICs and the supplementary pension insurance funds (SPF) managed by them. In 2021, a total of 518 inspections were carried out, including 123 inspections of the submitted financial statements and reports on the activities of PICs and 395 inspections of the submitted financial statements and reports on the activities of the funds. Based on the information from the financial statements and reports, the regulatory and general financial indicators for the activity of PIC and the funds managed by them are calculated and analysed. Through the indicators determined by regulation the legal implementation of PICs activity is monitored on a monthly basis. The regulatory indicators are own funds and solvency limit of PICs, liquidity of PICs and the managed funds, investment fee deducted for PICs from SPFs and from the SPFs under occupations scheme, management fee from the insurance contributions of SPFs and SPFs under occupational scheme, reserve for guaranteeing the minimum yield for the funds for supplementary mandatory pension insurance and reserve for guaranteeing the gross contributions (for the universal pension funds). The growth of assets and insured persons in SPFs, investments, and profitability of SPFs, as well as the growth of assets and investments in PF are analysed monthly. The overall financial indicators are calculated and analysed on an annual basis. These indicators are related both to the activity of PICs - own capital, assets, income, and expenses of PICs, and to the activity of the managed funds - assets, participants, investments, and profitability.

During the year, monthly inspections were also carried out on the electronic pages of PICs in connection with compliance with the provisions of the Social Insurance Code (SIC) and Ordinance No. 61 of 27.09.2018 on the requirements for advertising and written information materials and the web pages of the pension insurance companies. Periodically (10th of the month

following the quarter) the publication of information on the volume and structure of investments by types of assets and issuers of financial instruments is also inspected. During the year, an inspection was also carried out on the websites of all the PICs regarding the publication of the audited annual financial statements of the companies and the funds managed by them, as well as the other required information according to Art. 190, para. 2 of the SIC. During the inspections, no significant omissions or discrepancies were found.

During the year, a report was prepared summarising the opinions expressed in the reports of the joint auditors of the financial statements of the PICs and the managed SPFs for the year ending on 31.12.2021 and their findings, according to the reports issued by them for factual findings in connection with the audit under Art. 187, para. 3, item 2 of the SIC. Also a report was prepared summarizing the findings of the PIC auditors, according to the reports issued by them for factual findings in connection with the requirements of Art. 187, para. 3, item 3 of the SIC for checking the compliance of the management system with the requirements of the SIC and the acts for its implementation. Based on the findings of the auditors, it was not necessary to take supervisory actions.

In order to implement a systematic approach to the supervision, with a letter from the end of 2020, 4 PICs with a significant share of overdue receivables of the funds managed by them, related to bond issues, and leased investment properties, were asked for regular submission of information on the actions taken for collection of the receivables due to SPFs, including interest for delay, with a view to taking due care in the management of the funds of the insured persons. During the year, an analysis of the regularly presented information was carried out, and the results were objectified in reports. As a result of the analysis of the information received during the year, letters were sent to some of the companies requesting the provision of additional documents and information, as well as the performance of certain actions. Furthermore, 1 company was given recommendations for actions for collection of overdue receivables of the pension funds, related to leased investment properties.

During the year, intermediate calculations of the yield achieved by the SPFs at random dates were carried out in order to determine the risk of not achieving the minimum yield and the risks of its coverage according to the regulatory requirements. In one of the performed calculations, it was established that the yield achieved by a universal fund approaches the minimum, as well as that it is below the achieved average arithmetic yield for the 24-month period of the universal pension funds. The yield achieved by the other funds managed by this company also deviates from the average for the respective fund type. In this regard, a letter was sent to the PIC requesting information on the actions it has taken or intends to take to implement the investment policies of the SPF and increase the levels of profitability from managing the funds of the persons insured therein. An analysis of the information received by the company was carried out, and its results were objectified in a report with a proposal to implement enhanced monitoring of the investment results of the funds.

During the year, on the basis of selections, the valuations of certain properties, owned by SPF, prepared by the independent appraisers, were analysed. Based on the performed analyses, reports were prepared on compliance with the requirements of Art. 10 of Ordinance No. 9 of 19.11.2003 of FSC, and no violations were established during the year.

At the beginning of the second quarter of the year, the enhanced monitoring of the capital adequacy of one pension insurance company was suspended, in view of the new capital requirements, regulated in Art. 121c of the SIC, adopted with State Gazette no. 19 of 05.03.2021.

During the year, management experts actively participated in the refinement and upgrading of the e-FSC information system, in view of the adopted amendments and additions to the regulations.

During the reporting year, with the SPA of the SIC, prom. in SG, no. 19 of 05.03.2021, higher requirements were adopted for the capital of pension insurance companies, requirements were introduced for the amount of own funds covering the solvency limit, as well as the creation of a reserve to guarantee gross contributions. At the end of the reporting year, all companies are in compliance with these requirements.

During the year, letters were sent to several companies requesting information on the specific actions and decisions to bring the assets of the managed SPFs into compliance with the SIC requirements, in view of the deadline for compliance according to §155, para. 3 of the SPA of the SIC, prom. in SG, no. 12 of 2019 - the end of 2021. All companies aligned the investments of the SPFs managed by them, which did not meet the new requirements as at 18.11.2018.

In view of the adopted amendments in the regulations concerning the activity of supplementary pension insurance, the manuals for off-site supervision and for on-site inspections of the PICs and the managed funds were updated during the year. A new Handbook on Risk-Based AML/CFT Supervision in the sector was also adopted: Social insurance market

In accordance with the Manual for implementation of risk-based supervision of PICs and the SPIFs managed by them, a comprehensive assessment of the risk profile of each pension insurance company at the end of each quarter. There were no significant changes in the risk profile of the companies during the year. At the end of 2021, three companies have a low-risk profile, and the remaining six 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 six PICs are defined as low risk and only three companies remain with a medium risk profile.

### **3.2. On-site inspections**

The on-site inspections are an essential part of the operations of FSC which supervises the non- banking financial sector in accordance with its mandate as defined under 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 supervised 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 way of planning, the inspections are **scheduled** and **ad-hoc**. Planned on-site inspections are carried out on the basis of an approved annual plan, drawn up on the basis of applied approved criteria for the categorization of supervised entities depending on their degree of



risk. Ad-hoc inspections are carried out outside the planned annual schedule and is aimed at clarifying facts and circumstances in relation to identified problems in off-site supervision, significant changes that have occurred (e.g. in the management structure or ownership of the supervised entity, market behaviour, the market environment and etc.), data obtained from the analysis of financial reports submitted to FSC, as well as other notifications and applications, on the occasion of complaints and reports received by FSC, in case of established violations, as well as in connection with information received from other regulatory bodies or external sources. **Depending on the scope, the inspections are full (comprehensive)**, which cover all major aspects of the activity of the supervised entity and **thematic**, which have a narrower scope and are aimed at checking one or several specific/specific areas of the activity of the supervised entity. **Depending on the range of officials performing the inspections**, they can be **independent, parallel, and joint**. The inspections of one supervised entity performed by experts from one of the divisions of 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 FSC. The joint inspections are carried out by FSC employees together with other control bodies (SANS, BNB, NRA, etc.).

#### **Investment firms, central securities depository, and regulated markets**

In 2021 **7 inspections were completed** of investment firms, which in terms of their scope are comprehensive. All inspections are **independent** from the point of view of the circle of officials carrying out the inspection. Within the inspections of supervised entities during the reporting period, **acts for establishing administrative violations were drawn up, as well as coercive administrative measures have been applied**. All inspections were completed with the preparation of reports and delivery of statement of findings to the inspected supervised entities, and the relevant **recommendations** for observance of the applicable legislation and bringing the activity of the persons into compliance.

In 2021 **2 inspections** of supervised entities were initiated. In view of the manner of planning the inspections, they are differentiated into **2 scheduled**, and depending on the scope of the inspections - into **2 full (comprehensive)**, and all inspections are independent from the point of view of the circle of officials carrying out the inspection. All comprehensive inspections of supervised entities encompassed the entire operation of the companies with regard to their compliance with the Markets in Financial Instruments Act, the Public Offering of Securities Act, the Recovery and Resolution of Credit Institutions and Investment Firms Act, 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, Regulation (EU) 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, 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, Commission Delegated Regulation (EU) 2017/565 of 25 April 2016 supplementing Directive 2014/65/EU of the European Parliament and of the Council as regards organisational requirements and operating conditions for

investment firms and defined terms for the purposes of that Directive, Commission Delegated Regulation (EU) 2017/576 of 8 June 2016 supplementing Directive 2014/65/EU of the European Parliament and of the Council with regard to regulatory technical standards for the annual publication by investment firms of information on the identity of execution venues and on the quality of execution, Regulation (EU) No 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories, Regulation (EU) 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, and Regulation (EU) 2017/2402 of the European Parliament and of the Council of 12 December 2017 laying down a general framework for securitisation and creating a specific framework for simple, transparent and standardised securitisation, and amending Directives 2009/65/EC, 2009/138/EC and 2011/61/EU and Regulations (EC) No 1060/2009 and (EU) No 648/2012 and the acts on their implementation.

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

The purpose of the inspections of the MCs and the CISs managed by them, as well as with regard to the SWF and the managers of these funds - AIFMs, is to establish compliance with the applicable regulations regarding the organisation of the management companies according to the licence issued by FSC and with regard to the CISs organised and managed by them, incl. MFs, as well as regarding the activity of SWFs and AIFMs. The subject of the inspections is the observance of the requirements related to the capital adequacy and liquidity of the MCs, the relations of the MCs with the depositary and the investment firms, the determination of the net asset value, the issue value and the redemption price of the units of the CISs managed by them, the evaluation of the assets in the CIS portfolios, the sale and redemption of CIS units, the structure of the assets and liabilities, as well as the reporting of the CISs. With regard to SWFs and AIFMs, the subject of inspections is compliance with the requirements related to the safekeeping of SWF financial assets in a depositary institution and the relations with investment firms, the structure of assets and liabilities, valuation of portfolio assets and determination of net asset value, as well as the disclosure of the due information by SWFs and AIFMs. In the cases where the MC provides the additional services under the CISOUCA, the object of the inspections is also the observance of the requirements regarding the activity of portfolio management and provision of investment consultations regarding financial instruments.

In 2021, an inspection of 1 MC and the 2 MFs managed by it, opened in 2020, was completed.

In 2021 **2 full scheduled inspections were opened** of MCs and the CISs managed by them and **1 thematic ad-hoc inspection**, which ended within the reporting year.

In the course of the on-site inspections **an inspection was also carried out of the activities of depositary banks** of the CISs managed by the respective MCs in order to establish its compliance with the regulatory requirements. In this regard, **5 letters** were prepared requesting specific information from the depositary banks.

The inspections have been carried out with a view to establishing the compliance with the applicable legislation in relation to the activities carried out by the companies, namely the CISOUCIA, POSA, MFIA, FSCA and the regulatory acts on their implementation. In relation to the violations and non-conformities with the regulatory requirements or with the good market practices established during the inspections, the relevant supervisory actions were taken, namely invoking the administrative criminal liability of the responsible persons, making recommendations to bring the activity in line with the requirements, placing the company's activity under monitoring for a certain period of time.

As a result of the on-site inspections carried out during the reporting period, grounds were established for **a total of 61 recommendations** and the companies were made aware of the need to bring their activities in line with the applicable regulatory requirements, also **13 acts for establishing of administrative violations** were drafted. As a result of what was established during the inspections, certain aspects of the activity of **2 MCs** are placed under monitoring for a certain period of time.

As a consequence of the on-site inspections and the recommendations made to the supervised entities, monitoring, and analysis of the implementation of these recommendations is carried out. As part of the analyses carried out during the year, letters were sent to the relevant companies, with which additional documents and/or information were requested, and the final desired result is bringing the activities of the supervised entity into full compliance with the regulatory requirements and good practices. The results of the performed analyses of the actions taken by MCs to implement recommendations made as a result of on-site inspections are objectified in special reports, and in this regard in the reporting year 2021. **5 reports were prepared.**

### **Specialized supervision of investment firms and management companies on the implementation AML/CTF measures**

In the joint Guidelines of the ESA for risk-based supervision, it is provided that so-called individual and general supervision plans will be prepared on the basis of the assessed risks in the relevant sub-sector and the risk assessment of each supervised entity. Individual supervision plans are for each individual supervised entity, while the overall plan balances the individual plans and implements the supervision strategy.

Depending on their scope, on-site inspections are full (comprehensive) or thematic inspections. The scope of comprehensive on-site inspections includes verification of compliance with all requirements of AML/CFT legislation by the inspected supervised entity. During these inspections, the fulfilment by the obliged persons of all measures under Art. 3, items 1-6 of the LMML and Art. 3, para. 1 and 2 of the Law on Measures against the Financing of Terrorism (LMFT) in accordance with the procedure and under the provisions of the said laws and the acts on their implementation. In order to make efficient use of supervisory resources and their proper allocation according to the types and levels of risk identified, full inspections are carried out on an exceptional basis, are much more limited in number than thematic inspections and are focused on the areas in which the highest levels of risk are found.

Thematic inspections target the highest risk areas identified in the risk assessment at national, sectoral, and individual level. Given the identified areas of higher risk and the recommendations of the European Commission addressed to the supervisory authorities of the Member States, thematic on-site inspections were carried out in 2021 covering the following topics:

With regard to investment firms, including banks - investment firms:

- Trading through online platforms and performing remote identification of customers - checking for compliance with the requirements of the legislation regarding the accounting of the risk arising from the offer of services through online trading platforms, as well as the introduction and implementation of measures for remote identification in accordance with the established risk;
- Purchase on the regulated market of shares of Bulgarian issuers with the aim of acquiring the right of permanent residence/Bulgarian citizenship of persons from third countries - verification of compliance with the requirements of the legislation on risk accounting for this category of customers, their identification and verification of the identification carried out, as well as the establishment of the origin of the funds for such clients;
- Business risk assessment under Art. 98 of the LMML and Art. 60 of the RILMML, risk assessment of individual business relationships and determination of the risk profile of clients at non-banking investment firms- review of the risk assessment under Art. 98 of the LMML and Art. 60 of the RILMML of the obliged entity and verification of its compliance with the nature and scale of the activity of the investment firm; verification of the determined risk profiles of the clients and of the individual business relationships with them, to what extent the procedure introduced by the investment firms for determining the risk profile of the clients meets the requirements of Chapter Two, Section I of the RILMML and how it is applied in practice;
- Identification and verification of the identification of legal entities and other legal bodies and their beneficial owners - verification of the fulfilment of the obligations of the investment firms according to the provisions of the LMML and RILMML for carrying out identification and verification of the identification of clients - legal entities and other legal bodies, as well as and to establish, identify and verify the identification of the natural persons who are the beneficial owners of such customers;
- Compliance and effectiveness of the procedures for monitoring and reporting suspicious transactions, operations and clients - review of the procedures introduced by the investment firm in accordance with the established risks for monitoring the clients and the transactions carried out by them, checking the effectiveness of these procedures and the extent to which they are applied to practice, as well as verification of effectiveness in establishing, tracking and reporting transactions, operations and customers where there is reason to suspect money laundering, terrorist financing or funds of criminal origin;
- Application of the measures for enhanced due diligence - verification of compliance with the procedure, conditions, and ways of applying the measures for enhanced due diligence by the inspected person according to Chapter Two, Section IV of the LMML and Chapter Two, Section III of the RILMML.

In relation to management companies:

- Identification and verification of the identification of legal entities and other legal bodies and their beneficial owners - verification of the fulfilment of the obligations of the managing company according to the provisions of the LMML and RILMML for carrying out identification and verification of the identification of clients - legal entities and other legal bodies, as well as and to establish, identify and verify the identification of the natural persons who are the beneficial owners of such customers;

- Trading through online platforms and performing remote identification of customers - checking for compliance with the requirements of the legislation regarding the accounting of the risk arising from the offer of services through online trading platforms, as well as the introduction and implementation of measures for remote identification in accordance with the established risk;

- Correspondence and effectiveness of the AML/CFT resources - composition of the Specialized Service (SS) under the LMML, intended functions of the SS and their practical implementation, number and scope of training conducted for the head and members of the SS and the others employees who have functions for the fulfilment of the company's obligations under the LMML, RILMML and LMFT.

In order to achieve a higher level of efficiency in the implementation of the supervision of the implementation of the preventive AML/CFT legislation, joint inspections should be carried out with other control bodies under Art. 108 of LMML. Joint inspections contribute to:

- the correct understanding, assessment, and subsequent reduction of the general level of identified risks;

- good and effective exchange of information between the various supervisory authorities for the purposes of the control activity being carried out;

- proper distribution of supervisory resources at the national level, including with a view to avoiding duplication of inspections of persons obligated under the LMML;

- unification of practices in establishing violations of the relevant legal framework and sanctioning violators, as well as in issuing recommendations and instructions to the obligated entities on the order and ways of complying with the legal requirements.

In relation to the established strategy regarding the frequency and intensity of on-site inspections to comply with the requirements of the AML/CFT preventive legislation, as well as the common supervisory action plan for 2021 and the individual plans for each of the supervised entities - non-banking investment firms, investment firms - banks and management companies, in 2021, the Financial Supervision Commission carried out 21 on-site inspections in the “Trading in financial instruments” sector for compliance with the requirements of the LMML, LMFT and the acts on their implementation, of which 13 of investment firms, 3 of banks - investment firms and 5 of management companies. 4 of the on-site inspections carried out, namely 2 of investment firms, 1 of a bank - investment firm and 1 of a management company, are due diligence inspections that include verification of the fulfilment of all requirements of the AML/CFT preventive legislation the inspected supervised entity. The other 17 are thematic inspections aimed at the highest risk areas identified in the risk assessment at national, sectoral and individual level. Apart from that, 4 of the on-site inspections were carried out jointly with inspection teams, including experts from

the specialized administration of FSC and experts from the "Financial Intelligence" Directorate of the State Agency for National Security.

As a result of the on-site inspections carried out during the reporting period, grounds were established for a total of 69 recommendations and the companies were made aware of the need to bring their activities in line with the applicable regulatory requirements, for AML/CFT preventive legislation, also 7 acts for establishing of administrative violations for a total of 43 violations of the LMML, LMFT and the acts on their implementation were drafted.

### **Special Purpose Investment Companies**

Special purpose investment companies are a specific type of joint-stock companies that have received a licence under the SPICSCA to carry out a certain type of activity, namely real estate securitisation or receivables securitisation. In this regard, the inspection covers: on the one hand - the activity of the company as a SPIC, and on the other hand - the performance of its obligations as a public company. In this sense, the object of inspection is both the compliance with the SPICSCA and the POSA and the regulatory acts on its implementation. The purpose of the inspections of the SPICs 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 the SPIC's activity, the distribution of the profit, the storage and investment of the free funds , the investments in specialized companies, the total annual management costs, the disclosure of regulated information, the holding of general meetings of shareholders, as well as all internal documents related to their activities.

During the reporting period **3 inspections of SPICs and their service companies have been initiated, 2** scheduled and 1 ad-hoc. The three inspections continue in 2022, and 1 of the companies has been drawn up with 2 AEAVs.

In 2021, **1 full inspection of a SPIC and the service company was completed**, it was initiated in 2020. In accordance with regulatory requirements of SPICs, **11 recommendations, the implementation of which is monitored in the course of off-site supervision, as well as 2 AEAVs have been drawn up.**

### **Public Companies**

With a special order in 2021, **1 extraordinary inspection of a public company was initiated.**

**1 scheduled inspection of a public company** has ended during the year, which was initiated with a special order in 2020. As a result of the inspection, 7 recommendations were made, the implementation of which is monitored with off-site supervision, and 9 AEAVs were drawn up and delivered.

Another 2 inspections, initiated in 2019, were completed in 2021. As a result of the inspections, a total of 13 recommendations were made (9 on one and 4 on the other), and their implementation was monitored with off-site supervision. 30 AEAVs were drawn up and delivered to the representative of one of the companies.

### **Insurance and reinsurance**

In 2021, one of the general on-site inspections of an insurance company which started in the 2020 was completed, as a result of which some of the following recommendations and prescriptions were made:

- amendment in the Instruction for business activities and document flow, the Policy for determining and granting remunerations and the Accounting Policy;
- preparing an analysis by the head of the actuarial function of the data used at the end of 2020 and assumptions in order to better estimate the reserve for claims incurred but not reported under compulsory motor third party liability insurance and Fire and Natural disasters;
- updating the amount for forming an initial reserve of claims reported but not settled abroad;
- provision of information on the collateral under the bank guarantee issued in favour of NBBMI;
- provision of adjusted reports as of 30.09.2020, in which the receivables and liabilities from/to the Guarantee Fund are reflected separately;
- strict compliance with the provision of Art. 489, para. 5 of the Code of Civil Procedure when taking out compulsory motor third party liability insurance without registration number and complying with the provisions of Art. 42, para. 1 of Ordinance No. 49 of 16.10.2014 for submitting data for termination of the insurance contract on the day of its termination;
- using a more conservative model when calculating the amount of write-off premiums , not including in the denominator the amount of write-off premiums currently during the period;
- calculation of the best estimate based on current and reliable information and on realistic assumptions, which were carried out by means of adequate, applicable and appropriate actuarial and statistical methods according to Art. 77 of Directive 2009/138/EC;
- filling in template S.06.02.01 under Regulation (EU) 2015/2450 the required information in each column for cash balances separately for each bank and bank account;
- reflecting whether the results of the own assessment of risk and solvency have been approved by the AMSB of the insurer.

**In 2021, a total of 15 on-site inspections were opened, as follows:**

2 general inspections on the activities of life insurance companies for compliance with the provisions of the Insurance Code, the acts on its implementation, as well as the acts of the European Commission on the implementation of Directive 2009/138/EC, which have not been completed during the reporting period;

3 general inspections of life insurance companies for compliance with the provisions of the Law on Measures against Money Laundering and the Regulations for the Implementation of the Law on Measures against Money Laundering, which have not been completed during the reporting period;

1 thematic inspection of an insurer regarding the management system, technical reserves, calculation of the capital requirement for solvency, as well as the process of the own risk and solvency assessment, which ended during the reporting period. As a result of the inspections some of the following recommendations and prescriptions were been made to the inspected company:

- a change in the job descriptions of the key functions, with which to remove the condition that the latter should be directly subordinated to the executive directors;
- reorganisation of the risk management function, with a view to ensuring the fulfilment of the powers and obligations laid down in the Insurance Code and Guidelines for the management system;
- presentation of the accounting methodology for the accounting of recourse claims, with an accurate description of the accounting operations;
- amendment of the Internal rules for the settlement of claims under insurance contracts, Internal rules for disclosure and avoidance of conflicts of interest and the Policy for carrying out own risk and solvency assessment;
- complying the contracts of the persons under Art. 2, para. 1 of Ordinance No. 48 with the requirements of Art. 5, para. 4 of the ordinance;
- acceptance of amendments and additions to the standardized clauses - General and Special conditions;
- providing detailed justification of: the estimate of the acquisition cost ratio for the type of activity (AER) in the calculations of the best estimate of the premium reserve; of the methodology of estimated liquidation costs, part of the combined ratio (CR) in the calculations of the best estimate of the premium reserve; of the estimated liquidation costs, in the calculations of the best estimate of the claims reserve;
- presentation of information on an alternative method of calculating future cash flows in these lines of business;
- correct reflection of the data in the “date of purchase” field, in quarterly and annual reports on investments under Ordinance No. 53.

One thematic inspection of an insurer regarding the insurance contracts concluded by the company and compensations paid for the covered risks, included in class 14 “Loans” and class 15 “Guarantees”, section II, letter "A" of Appendix No. 1 of the Insurance Code. As a result of the inspections some of the following recommendations and prescriptions were been made to the inspected company:

- presentation of the Matrix for discounting the maximum allowable benefits;
- presentation of the risk-based analysis on the pricing of the commercial risk assumed by the insurer, together with the documents on the pricing of the “Loans and Financing” insurance, as well as the Risk Strategy for 2020 and 2021;
- presentation of information on what part of settled claims has been presented to a reinsurer for payment and what part has been paid as of 31.08.2021, as well as on which of the paid claims actions have been initiated to collect recourses for the part that is not reinsured and what part is actually collected.

One thematic inspection of an insurer regarding the company's market behaviour - practices in distribution of insurance products and settlement of insurance claims, technical reserves, and actuarial function, as well as the calculation of the solvency capital requirement. As a result of the inspections some of the following recommendations and prescriptions were been made to the inspected company:



- submission of written evidence showing the date and amount of insurance compensation paid for 3 claims;

- performing an analysis of the ascertained shortfall of the reserve for claims reported but not settled and preparing a calculation of the reserve for claims incurred but not reported for the class of insurance "INSURANCE OF LAND VEHICLES INSURANCE, APART FROM RAILWAY ROLLING STOCK";

- carrying out the necessary actions with a view to the full and accurate fulfilment of the insurer's obligations under Art. 120, para. 1, para. 2 and para. 3 of the IC and according to Art. 90 of Ordinance No. 53 regarding formation of a reserve for claims reported but not settled.

- submission to FSC of detailed written explanations regarding the "reverse task method" used by the responsible actuary;

- settlement of all obligations arising from claims made against the insurer under insurance contracts, including ruling on claims according to the terms established in the Insurance Code.

- exact performance within the required terms of the obligations under Art. 573, item 2 in connection with Art. 571, para. 1, item 2 of the IC and Art. 13, in connection with Art. 12 of Ordinance No. 54;

- calculating individually for each class of insurance the allocation for future claims based on the Run-off pattern as well as the payment pattern;

- including the best estimate of the premium reserve in the calculation of the amount of investment management expenses and the amount of inflation, including on expenses and claims;

- submission to FSC of the calculation of the sub-module of the risk of termination in non-life insurance and of the sub-module of the risk of termination in health insurance, other than life insurance;

- correct reporting of the data in FSC for the number of motor vehicles, part of the calculation of the sub-module of the risk of third-party liability arising in connection with motor vehicles;

- strict compliance with the powers of attorney presented to the company authorising third parties, other than the right holders, to receive insurance compensation under a presented insurance claim;

- discontinuing the practice in which, after filing claims under compulsory motor third-party liability insurance, the company sends letters to the injured parties informing them that there is no reason to pay insurance compensation, due to the lack of indisputable evidence, and with the same letters requiring additional evidence from the injured persons for the first time;

- reporting the result for the best estimate according to the calculation files.

One thematic inspection on the information system of the supervised entity. As a result of the inspection some of the following recommendations and prescriptions have been made to the inspected company:

- reducing the number of operating systems used to at least two Windows and Linux, which will lead to greater uniformity and lower operating costs;

- implementing a new approach by moving to open source software products that use standardized protocols for commands and data exchange;
- obtaining an interface identification number from the main recordkeeping system in the claims registration and administration system;
- transition to implementing a system with a synchronous work model and to implementing an entirely new system;
- assessing the capabilities of the developer/supplier to maintain and support (update due to changes in the regulatory framework) all components/applications that are part of it, when implementing a new solution for the system.

One thematic inspections of an insurer regarding the internal rules, procedures, and methodologies for determining the insurance premiums under the compulsory motor third party liability insurance for the period from 01.02.2021 to 01.03.2021.

Based on the thematic inspections companies, an instruction was given to submit to FSC a detailed justification of how the company has projected the last adopted tariffs, so that in case of possible future events and insufficiency of technical reserves to ensure protection of the rights and interests of insurance services.

A thematic inspection of an insurer on the underwriting activity, investments, calculation of Solvency Capital Requirement and Minimum Capital Requirement, as well as its own risk and solvency assessment process. As a result of the inspections some of the following recommendations and prescriptions were been made to the inspected company:

- providing justification with forecasts of how the company projected the last accepted tariffs, so as to guarantee protection of the rights and interests of the users of insurance services;
- reflecting in each tariff for the insurance products offered by the company both the act by which it was adopted, and the date of its adoption, and in addition the adopted amendments to the respective tariffs, in case such amendments were made;
- providing a detailed description of the method used to evaluate the shares, without using quoted market prices, as well as the calculation file for the performed evaluation;
- amendment of the Accounting Policy, Risk Management Policy and the Internal Procedure for own risk and solvency assessment;
- complying with the requirement of Guideline No. 6 of the Guidelines for the Own Risk and Solvency Assessment (ORSA), adopted by EIOPA, and for each performed ORSA it is necessary to prepare an Internal Report on the ORSA;
- compliance with the set quantitative limits in the adopted investment policy;
- application of fair value measurement in accordance with IFRS 13;
- determination of quantitative limits based on the total value of the investments, leading to a better diversification of the portfolio, taking into account the principle of the prudent investor, subject to the requirements of Art. 124 of the Insurance Code and Art. 15 of the Investment Policy;
- implementation of Delegated Regulation (EU) 2015/35, as amended by Delegated Regulation (EU) 2019/981, regarding the sub-module of catastrophic risk in health insurance.

A thematic inspection of an insurer on technical reserves and investments. As a result of the inspections some of the following recommendations and prescriptions were made to the inspected company:

- implementation of procedures for daily entry and controls of the emission values of the fund units to correspond to those in the primary sources of information;
- building automation in the company's information system, to guarantee the minimization of the manual processing of the requested redemptions of insurance policies and also to ensure the possibility of traceability of the redemption values of the policies at each reporting date in order to guarantee the fulfilment of Art. 86, para. 13 of Ordinance No. 53;
- change in the Investment and Accounting policies of the company;
- submission to FSC of detailed written explanations regarding the established inconsistencies in the accepted values of the revaluations made by the company, compared to the prices according to the BSE bulletin, which should be taken as a basis, together with written evidence certifying the method of calculating the revaluations in shares;
- use of the technical interest in the calculations of premiums and reserves not higher than 50 percent of the long-term interest rate published by the Bulgarian National Bank, averaged over the last seven years, and the responsible actuary should comment on the changes in the technical interest and the changes in tariffs that have occurred in the annual actuarial report;
- ensure compliance between the data used to calculate the technical reserves and the data submitted in the order of accounting reporting;
- compliance with the provisions of Art. 88, para. 4 of Ordinance No. 53, according to which the created reserve for future participation in the income should be distributed among the insurance contracts within a period of five years;
- ensuring the participation of the head of the "Risk Management" department as a full member (with the right to vote) in the Investment Committee;
- avoiding concentration in the investment portfolio of shares and bonds that can be considered instruments of related or potentially related entities and whose significant volume would increase the risk profile of the portfolio;
- compliance with the requirements of art. 77a of Ordinance No. 53, regarding the subsequent evaluation of shares in the portfolio;
- application of fair value measurement in accordance with IFRS 13.

A thematic inspection of an insurer regarding compliance with the provisions of the Law on Measures against Money Laundering and the Rules for Implementation of the Law on Measures against Money Laundering. As a result of the inspections some of the following recommendations and prescriptions were made to the inspected company:

- correct completion and completeness of all the documents necessary for customer due diligence in accordance with the LMML, RILMML and LMFT.

One thematic inspection of an insurer on the calculation of the Solvency Capital Requirement as well as the process of own risk and solvency assessment. As a result of the inspections some of the following recommendations and prescriptions were made to the inspected company:

- amendment of the Policy for carrying out own risk and solvency assessment according to the requirements of Guideline No. 4 of the Guidelines for own risk and solvency assessment adopted by EIOPA;
- inclusion of investment management costs when projecting net best estimate of obligations cash flows and stresses under the Solvency II Standard formula;
- carrying out regular back-testing of assumptions (including future acquisition costs, administrative costs and losses) against experience (practical results) according to Art. 264 of Delegated Regulation (EU) 2015/35 and, if necessary, to adapt the assumptions used so that they reflect the experience of the company;
- complying with the requirement of Guideline No. 6 of the Guidelines adopted by EIOPA for own risk and solvency assessment, and for each carried out ORSA, it is necessary to prepare an Internal Report on ORSA.

One thematic inspection of an insurer on technical provisions that was not completed during the reporting period.

It should be borne in mind that with the spread of the COVID-19 pandemic, the timely conduct of on-the-spot inspections is limited in order to comply with anti-epidemic measures. In this regard, a large part of the information and evidence is collected, through correspondence, which takes a longer period of time for their entry into FSC and for the analysis of the data. Nevertheless, in order to carry out in-depth and adequate inspections, if necessary, the employees of the Insurance Supervision Division make on-site visits to the insurance companies. The on-site visits are carried out in compliance with the anti-epidemic measures and take into account the capabilities of the companies to ensure the presence of the relevant employees engaged in the subject matter and working remotely.

### **Insurance intermediaries**

In 2021, a **total of 59** on-site inspections were carried out of insurance intermediaries, including ad-hoc inspections - 2 inspections are of insurance intermediaries registered in another member state, operating on the territory of the Republic of Bulgaria under the terms of the right of establishment, 1 inspection based on a received signal, 1 inspection based on which the commission referred to itself and 1 joint inspection.

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. In the scope of the performed inspections, the requirements related to the provision of pre-contractual information to the users of the insurance services, the guarantee of their activity and the deadlines for reporting the insurance premium collected by the intermediaries, etc. are monitored. In the case of 3 of the inspections, their scope was extended to comply with the provisions of the Law on Measures against Money Laundering and the Rules for the Implementation of the Law on Measures Against Money Laundering.

As a result of what the **on-site inspections of insurance firms carried out during the year, 26 acts were issued for a total of 62 administrative violations**, the most common violations being related to non-compliance with the following regulatory requirements:

- the transfer in favour of the insurer of the premium received or an insurance instalment 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;

As a result of the inspections the following recommendations have been made:

- to correct or supplement the pre-contractual information about the distributor of insurance services under Art. 325 of the IC;
- to correct the insurance intermediation agreements signed with the insurer, by entering the statutory deadlines for transferring the collected insurance premium to the insurer;
- to eliminate negotiated additional commissions based on sales volume;
- to submit documents certifying the continued training completed in 2020 by employees directly involved in the distribution of insurance products;
- to present a document certifying the consent provided by the first insurer in accordance with the requirement of Art. 315, para. 2 of the IC;
- to amend the concluded insurance agency contracts, according to which the insurance agent can mediate insurances other than the insurances for which he is authorised by the first insurer;
- to be provided with a document certifying the method of guaranteeing the activity of an insurance agent, through the maintenance of own capital or client/s accounts, or a power of attorney from the insurer, with which the agent is authorised to operate with the account of the insurer;
- transferring to the benefit of the insurer the received payment of a premium or contribution under insurance in the statutory term under Art. 337, para. 2 of the IC, namely one month after receiving the payment, and for the mandatory insurances under Art. 461, items 1 and 2 - within 5 working days of receiving the payment
- to correct the information provided through the web pages of the distributors of insurance services addressed to consumers of insurance services, including marketing messages, so that it is true, clear, and not misleading in terms of the name of the intermediary, the addresses of the offices of execution of insurance intermediation activity and for the insurers for whom insurance intermediation is carried out;
- to publish "Rules for handling complaints of users of insurance services" on the website maintained by the intermediary;
- to present documents certifying the necessary knowledge, skills and qualifications of the employees directly engaged in the activities of insurance distribution, so that they fulfil their tasks and obligations adequately;

- to present information about the way the insurance agent has chosen to guarantee its activity - according to Art. 316, para. 5 in connection with Art. 306, para. 1 item 1 of the IC or Art. 316, para. 7 of the IC.

### **Supplementary pension insurance**

In implementation of the Annual Program for On-Site Inspections in Pension Insurance Companies and Custodian Banks in 2021 (Annual On-Site Inspection Program) **2 on-site inspections - 1 full and 1 thematic**, and the full inspection was completed in the first quarter of 2022. During the year, outside of the annual program of on-site inspections, there were also **2 additional thematic inspections**.

The protocol of the full on-site inspection completed at the end of 2020 was handed over at the beginning of the reporting year. No violations were found during the inspection, however **31 recommendations are given to improve the activity**. 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 funds managed by them is monitored.

In implementation of the annual program of on-site inspections **1 thematic inspection** of a PIC was carried out, for compliance with the provisions of CSR and the rules on its implementation in terms of risk management, investments, receivables and obligations of the SPFs managed by the company, as well as in terms of the activity of the unit performing the function of internal audit. No violations were found during the inspection. In the findings of the inspection the company's management was given **18 recommendations to improve the activity**.

Apart from what was included in the annual on-site inspection program, during the reporting year, **2 thematic inspections** were carried out for compliance with the requirements of the regulatory acts governing measures against money laundering and the financing of terrorism. No violations were found during the inspections. As a result of the performed inspections of the management of one POD were given **3** recommendations for improving the activity, and the other was given **1** recommendation.

During the year, reports were prepared on the basis of analyses of actions taken by the PIC to implement certain recommendations during on-site inspections. As a result of the analyses carried out during the year, letters were sent to the companies with which additional documents and information were requested.

### **3.3. Law enforcement**

#### **Legal activity**

During 2021, a total of 37 PWs were issued by the Chairperson of FSC for violations committed under the Special Purpose Investment Companies Act (SPICA), as well as for obstruction of the Commission, its bodies, and duly authorised officials of its administration in the exercise of their supervisory powers (violation of Art. 32 of FSCA).

**The total value of the sanctions imposed on the administrative penalties imposed by the 32 penal decrees issued by the Chairperson of FSC for violated provisions of the SPICA**

is BGN 266,000, all of which are in respect of supervised entities - joint stock companies with special purpose investment (SPICs).

The total value of the sanctions, determined by the imposed administrative penalties with the 5 penal warrants issued by the Chairperson of FSC for violated provision of Art. 32 of FSCA, is 96 000 BGN 4 of them are worth BGN 94,000 and are for 2 investment firms, and the one for BGN 2,000 is for another legal entity.

In the reporting 2021, 34 penal warrants issued by the Chairperson of FSC have entered into force, and this number includes PWs issued in previous years (until 2020), at a total value of BGN 314,000. In the reporting 2021 there are 12 penal warrants revoked by the court, issued by the Chairperson of FSC, at a total value of BGN 115,000. The total value of the sanctions imposed with PWs issued by the Chairperson of FSC, including PWs issued in previous years (until 2017), which at the end of 2021 are in the appeal phase, amounts to BGN 276,000.

Out of the ones issued in the reporting 2021, 17 penal warrants issued by the Chairperson of FSC have become effective, totalling BGN 130,000. Out of the ones issued in the reporting 2021, 6 penal warrants issued by the Chairperson of FSC were revoked, totalling BGN 60,000. The total value of PWs issued by the Chairperson of FSC in 2021, which at the end of 2021 are in the appeal phase, amounts to BGN 172,000.

**Table 18. Law enforcement in 2021** (PWs, issued by the Legal Directorate)

	Drawn up AEAVs	Issued PWs	Value of enforced PWs (BGN)	Proceedings opened under CAM	Decisions for applicatio n of CAM
Investment firms, Central Depository, BSE, and other persons	-	4	2,000	-	-
CIS, MC, SPIC, PC, and other issuers	-	32	304,000	-	-
Non-life insurance companies	-	-	8,000	-	-
Life insurance companies	-	-	-	-	-
Insurance brokers	-	-	-	-	-
Insurance agents / persons operating as insurance agents, without being entered in FSC register	-	-	-	-	-
Guarantee Fund, NBBMI	-	-	-	-	-

Pension insurance companies / their representatives	-	-	-	-	-
Other legal entities and natural persons	-	1	-	-	-

### Investment firms

As a result of the comprehensive off-site supervision and on-site inspections, administrative violations of both national and European legislation were identified in 2021. Violations of the provisions of the POSA, MFIA, LLML, Ordinance No. 23, Ordinance No.38 and Ordinance No. 50 were found. The identified breaches of European legislation are Regulation (EU) 596/2014, Regulation (EU) 575/2013, and (EU) 600/2014.

In 2021, in relation to investment firms, 34 acts for establishment of administrative violations (AEAV) were drawn up in connection with 206 committed acts, the administrative criminal proceedings of which are under the competence of the deputy chairperson in charge of the Supervision of Investment Activity Division.

In 2021, 36 PWs were issued by the Deputy Chairperson in charge of the Investment Activity Supervision Division, taking into account the 6-month term under Art. 34, para. 3 of the AVPA, part of these PWs are in connection with proceedings initiated with AEAVs, drawn up in the previous year. With the issued PWs, property sanctions and fines in the total amount of BGN 467,000 were imposed and 167 administrative violations were committed.

The value of PWs issued during the reporting period and entered into force as of 10.03.2022 amounts to total of BGN 65,500.

As of 10.03.2022, there are no court proceedings that have ended with annulment decisions in connection with administrative criminal proceedings instituted against investment firms.

As of 10.03.2022, 26 criminal warrants in connection with 144 committed violations are under appeal, with the total value of administrative penalties amounting to BGN 401,500.

During the reporting period, violations of various types of normative acts - ordinances, laws and regulations - were found. A major part of the violations committed are the acts concerning the failure to submit a complete and precise report to FSC for a concluded transaction or the submission of such after the required period, in violation of Art. 26, § 1 of Regulation 2014/600. During the reporting period, violations of Ordinance No. 23 concerning the lack of an assessment of client assets were also found, as well as a significant number of violations of the LMML related to the lack or incomplete identification of clients by investment firms before establishing business relations with them. Incidental violations of the MFIA, Regulation 575/2013, as well as Regulation 38 are also reported.

**Table 19. Enforcement in 2021**

	Drawn up AEAVs/Identified Violations	Issued PW*/Number of violations	Value of enforced PWs (BGN)
Investment firms	34/206	36/167	65,500
CIS, MC, SPIC, PC, and	444/444	481/481	1,183 000



other issuers, as well as their representatives			
Other legal entities and natural persons	22/84	6/6	9,000

\*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.

**Table 20. Most frequent violations by IFs in 2021**

Type and basis of the violation	Drawn up AEAVs/Identified Violations	Issued PW* / Number of violations
Failure to submit a complete and accurate report on concluded transactions (Art. 26, § 1 of Regulation 600/2012)	6/67	8/64
Violations in the identification of customers in connection with the requirements of the LMML (Art. 53 and Art. 55 of the LMML)	4/27	given the 6-month term under Art. 34, para. 3 of the AVPA, during the reporting period no NPs were issued
Lack of assessment of client assets (Art. 3, para. 1 of Ordinance No. 23)	3/18	2/12

During the reporting period in respect of BSE AD and Central Depository AD no AEAVs were drawn up, and no penal warrants have been issued.

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

In 2021, a total of 356 AEAVs were drawn up for public companies, special purpose investment companies and other issuers of securities, as well as for individuals and legal entities representing them, establishing 356 violations.

During the reporting period, the Deputy Chairperson in charge of the Investment Supervision Division, issued almost twice as many penal warrants compared to those issued in 2020 (234), namely - 422 WPs, taking into account the 6-month period under Art. 34, para. 3 of

AVPA, a part of these PWs is according to AEAVs drawn up in the previous year. With the indicated PWs, property sanctions and fines in the total amount of BGN 2,322,000 were imposed.

A substantial part of the issued penal warrants, namely - 63% of them, were appealed by their addressees in court. As of 10.03.2022, out of all those issued in 2021, 187 became effective, which imposed administrative penalties - fines and property sanctions in the amount of BGN 1,053,000.

As of 10.03.2022, 9 PWs issued in the reporting period have been cancelled, the value of the administrative penalties for them is in the amount of BGN 28,000.

The value of PWs issued during the reporting period and under appeal as of 10.03.2021 amounts to a total of BGN 477,500 and pertains to 221 violations.

The AEAVs drawn up and delivered in 2021, mainly establish violations of the POSA - this is 91% of all acts drawn up. These establish violations related to the obligations for disclosure of regulated information to FSC and the public, namely failure to provide within the statutory period of annual financial statements on an individual or consolidated basis, 6-month financial statements on an individual or consolidated basis and public notification of individual or consolidated basis for the financial condition of the company.

**Table 21. Most frequent violations by PCs, SPICs, and other issuers of securities in 2021**

Type and basis of the violation	Drawn up AEAVs	Issued PWs*
Failure to submit regulated information on an annual, 6-month and quarterly individual and consolidated basis (Art. 100n, para. 1 and 2, Art. 100o <sup>1</sup> , para. 1 and 2 of the POSA)	126	159
Non-fulfilment of obligations related to convening and conducting an invitation to convene a general meeting of shareholders (Article 115 of the POSA)	74	42
Non-compliance with an applied coercive administrative measure (Art. 221, para. 6 of the POSA)	26	35

\*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.

### **Management companies, Collective investment schemes and other collective investment undertakings, as well as representatives of the said persons**

In 2021, a total of 88 AEAVs were drawn up in connection with the same violations for MCs and MCs in the capacity of CIS managers, as well as of the representatives of said entities.

A significant number of the committed violations relate to the failure to publish in time summary information on issue values and redemption prices of CIS units, there were violations related to failure to maintain minimum liquid assets, including cash on hand and demand deposits, in an amount not less than the current liabilities of the MC with a maturity of up to 3 months; failure to submit an updated prospectus of CISs on time, etc. There is a slight increase in the number of detected violations compared to the previous reporting period.

During the reporting period, a total of 53 PWs were issued by the Deputy Chairperson in charge of the Investment Activity Supervision Division, and compared to the previous reporting period, an increase in the number of issued PWs was observed by 61%. Given the 6-month period under Art. 34, para. 3 of AVPA, a part of these PWs is under AEAVs drawn up in the previous year. With the drafted PWs, property sanctions in the total amount of BGN 521,000 were imposed.

The value of PWs issued during the reporting period and entered into force as of 10.03.2022 amounts to a total of BGN 106,000.

As of 10.03.2022, 3 PWs issued in the reporting period have been cancelled, and the value of the administrative penalties for them is in the amount of BGN 28,000.

The value of PWs issued during the reporting period and under appeal as of 10.03.2022 amounts to a total of BGN 387,000.

**Table 22. Most frequent violations by MCs and MCs in the capacity of CIS managers in 2021**

Type and basis of the violation	Drawn up AEAVs	Issued PWs*
Failure to submit to FSC within the statutory period of summarized information on the issue values and redemption prices of the CIS units (Article 64, paragraph 2 of the CISOU CIA)	21	17
Violations related to failure to maintain minimum liquid funds in a certain amount (Art. 153, Para. 1 of Ordinance 44)	12	given the 6-month term under Art. 34, para. 3 of the AVPA, during the reporting period no PWs were issued
Failure to provide an updated prospectus of a CIS on time (Art. 56, para. 1 of the CISOU CIA)	10	9
Failure to comply with the relevant requirements of Regulation (EU) 575/2013 when determining the amount of equity of the MC (Article 90, paragraph 2, sentence 3 of the CISOU CIA)	7	4

\*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.

**Other natural and legal persons who have committed violations of the legislation governing investment activity**

In 2021 22 AEAV were drawn up in connection with 84 violations, the administrative criminal proceedings of which are under the competence of the Deputy Chairperson in charge of the Supervision of Investment Activity Division.

A significant number of the committed violations, namely - 86% of them concern failure to notify the issuer or the competent authority (FSC) of concluded transactions after crossing the threshold of EUR 5,000, on the basis of Art. 19, § 1 of Regulation 596. Identified violations of the provisions of the - Public Offering of Securities Act , which concern notification of FSC upon passing a certain threshold of voting rights in the general meeting of a public company, as well as failure to declare certain circumstances to FSC and the regulated market, on the basis of Art. 114b, para. 1 of the Public Offering of Securities Act.

During the reporting period, a total of 20 PWs were issued in connection with 87 administrative violations committed, with which sanctions were imposed in the total amount of BGN 122,000, and among the issued penal warrants, the main share was those concerning violations of Art. 19, § 1 of Regulation 596, namely – 13 counts in connection with 80 violations.

The value of PWs issued during the reporting period and entered into force as of 10.03.2022 amounts to a total of BGN 9,000.

As of 10.03.2022, no penal warrants issued during the reporting period have been revoked.

The value of PWs issued during the reporting period and under appeal as of 10.03.2022 amounts to a total of BGN 108,000, and one of the penal warrants is the process of being delivered to the offender.

### **Insurance and reinsurance**

In 2021, 381 acts for establishing administrative violations (AEAVs) of persons under the supervision of the Insurance Supervision Division were issued. A total of 443 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 FSC, as well as during the consideration of complaints of users of insurance services.

**Table 23. Enforcement in 2021**

	Drawn up AEAVs	Issued PWs*	Value of enforced PWs** (BGN)	Proceedings opened under CAM	Decisions for implementation of CAM***
Investment firms, CD and BSE					
CIS, MC, SPIC, PC, and other issuers					
Non-life insurance companies	344	330	609,000	1	0
Life insurance companies	5	7	9,000	0	0
Insurance brokers	27	16	48,000	3	3
Insurance agents / persons operating as insurance agents, without being entered in FSC register and other individuals and entities	5	4	9,000	-	-
Pension insurance companies	-				
Guarantee Fund, NBBMI	-	-	-	-	-

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 2021 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.

**Table 24. Results of the administrative penal activity in 2021**

	Value of PWs issued in 2021 (BGN), of which:	Value of enforced PWs (BGN)	Value of revoked PWs (BGN)	Value of PWs under appeal (BGN)
Investment firms, central securities depository, and BSE				
CIS, MC, SPIC, PC, and other issuers				
Non-life insurance companies	857,000*	321,000	0	535,500
Life insurance companies	28,000	25,000	0	3,000
Insurance brokers	46,000	38,000	0	8,000
Insurance agents	4,000	4,000	0	0
Other legal entities and natural persons				
Pension insurance companies				
Guarantee Fund, NBBMI	0	0	0	0

Notes: As a result of a court decision, the amount of sanctions in the issued PWs may differ from the amount of sanctions in the enforced PWs.

\* One penal warrant has been amended, and the sanction imposed has been reduced from BGN 3,000 to BGN 2,000. This is the reason why the sum of the PWs that have become effective, cancelled and those under appeal is not equal to the value of the PWs issued in 2021.

The number of reviewed user complaints in 2021 was 981, which is approximately the same number as the 951 complaints reviewed in 2020. It should be noted that over the past two years, the number of complaints against insurers and insurance intermediaries received by the Financial Supervisory Service remained lower than in the previous three years (2017 – 1,332, 2018 – 1,664, 2019 – 1,111.). The latter is an indication of increasing citizens' satisfaction with the insurance services used.

**Table 25. Most frequent violations in the field of insurance and reinsurance in 2021**

Type and basis of the violation	Drawn up AEA Vs	Issued PWs
Art. 108, para. 1 of the IC - 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	240	235
Art. 496, para. 2 in connections with para. 1 of the Insurance Code - failure of the insurer to pronounce within the three-month period provided by the Insurance Code in case of a claim under the Motor Third Party Liability Insurance	36	34
Art. 108, para. 6 of the IC - 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	22	18
Art. 108, para. 2 of the IC - Failure of the insurer to issue a conclusion on an insurance claim filed within the statutory period of six months from the reporting of the claim	13	14
Art. 337, para. 2 of the IC- non-transfer of the received insurance premium from an insurance intermediary to an insurer	12	11
Art. 290, para. 2 of the Insurance Code - failure to submit a response to a complaint from a user of insurance services	6	5
Art. 126, para. 1 of the Insurance Code - failure to submit thematic financial statements and reports by insurers within the statutory period	6	7

Notes: \*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.

In 2021, the main violations committed by the insurance companies still were mainly 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 289 AEA Vs were issued.

Despite the fact that in 2021 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 trend towards decrease of violations of this type.

The decrease in the number of detected violations is an indicator of the effectiveness of insurance supervision and of the applied supervisory measures, as a result of which there is an improvement in the market behaviour of the supervised persons and, to a greater extent, compliance of their activities with legal requirements.

The total value of the PWs that entered into force in 2021 amounts to BGN 609,000 (six hundred and nine thousand), as the main part of the amount is accrued in connection with the penal decrees that have entered into force, with which the administrative penal liability of the non-life insurance companies is engaged.

### **Supplementary pension insurance**

In 2021, **29 acts for establishing administrative violations** were drawn up according to the provisions of the SIC and the by-laws for supplementary pension insurance. **7 penal warrants** have been issued, imposing property sanctions in the total amount of BGN 140,000. All the PWs issued during the reporting year are being appealed, as at the end of 2021 FSC did not receive information about their becoming effective.

During the reporting period **2 coercive administrative measures have been applied** against two pension insurance companies. With one of the applied CAMs a pension insurance company is obliged to cease a violation of the SIC, and with the other - to carry out the necessary actions to bring the composition of the Board of Directors in line with the requirements of Art. 45, second sentence of the Articles of Association of the company. The coercive administrative measures have been implemented by the pension insurance companies within the set deadlines.

In 2021, **seven complaints were received against PWs issued by the Deputy Chairperson of FSC in charge of the Social Insurance Supervision Division.**

**Table 26. Enforcement in 2021**

	Drawn up AEAVs	Issued PWs	Value of enforced PWs* (BGN)	Proceedings opened under CAM	Decisions for imple- menta- tion of CAM **
Investment firms, central securities depository, and BSE					
CIS, MC, SPIC, PC, and other issuers					
Non-life insurance companies					
Life insurance companies					
Insurance brokers					
Insurance agents					
Guarantee Fund, NBBMI					



Pension insurance companies / their representatives	29	7	70,000	-	2
Other legal entities and natural persons					

Notes: \* The value of PWs that became effective in 2021 also covers PWs issued in previous periods. \*\* 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.

The most common violations for which in 2021 AEAVs were drawn up are: **4 violations** when investing funds of a fund for additional mandatory pension insurance in shares of alternative investment funds (Article 176, Paragraph 1, Item 12 of the SIC); **4 violations** of Art. 4, para. 2 of Ordinance No. 10 of 29.06.2021 of FSC (investment of more than 5 percent of the PIC's own funds covering the solvency limit in financial instruments issued by one issuer) and **3 violations** of the requirement that the pension insurance company maintain at least 75 percent of its own funds covering the limit of solvency in financial instruments under Art. 176, para. 1, items 1 - 4 and deposits under Art. 176, para. 1, item 5 of the SIC (Art. 121c, paragraph 7 of the SIC).

### 3.4. Market abuse

The legal framework regulating market abuse covers both national legislation and directly applicable European legislation and its implementation acts.

In 2021, in accordance with the statutory functions of FSC, it **supervises the trading of financial instruments, as well as the information disseminated to investors in accordance with the regulatory requirements.** During the reporting period there is ongoing 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. In 2021, information was exchanged with the Ministry of Finance, as well as supervisory authorities of other countries.

In 2021, a total of 10 AEAVs were drawn up in connection with 72 violations of Regulation (EU) 596/2014, all of which concern non-fulfilment of Art. 19, § 1 of the Regulation.

For violation of Regulation 596/2014 in 2021, 14 penal warrants were issued in connection with 81 violations, for which administrative penalties were imposed - a fine and a property sanction in the total amount of BGN 100,000. A substantial part of the committed violations, namely - 98.8% concern established violations of Art. 19, § 1 of the Regulation, and an administrative penalty was imposed in connection with the abuse of inside information.

As of 10.03.2022, 4 of the issued PWs came into force, with which property sanctions were imposed for a total of BGN 4,000.

As of 10.03.2022, no PWs issued in the reporting period have been revoked.

The value of PWs issued during the reporting period and under appeal as of 10.03.2022 amounts to a total of BGN 96,000.

### **3.5. Money laundering**

Given the powers of FSC regarding the implementation of AML/CFT measures and the initiative taken in this regard to assist obligated supervisors in carrying out their activities in accordance with the relevant regulatory requirements, information materials have been published in the Moodle training platform implemented by FSC related to the main obligations of IFs, MCs and AIFMs in the field of AML/CFT measures. Access to the platform is provided to all IFs and MCs. In addition, in the month of August 2021, 3 online training seminars were held, intended for employees of the entities under the supervision of the Commission, who are obliged entities under Art. 4 of the LMML, as follows:

- On 03.08.2021, 190 employees from a total of 62 IFs, MCs, collective investment schemes and other collective investment undertakings and AIFMs took part in the training;
- On 04.08.2021, 138 employees from a total of 75 PICs, life insurance companies and insurance brokers took part in the training;
- On 26.08.2021, 231 employees from a total of 109 IFs, MCs, collective investment schemes and other collective investment undertakings and AIFMs, as well as PICs, life insurance companies and insurance brokers, took part in the training.

In connection with the initiated procedure for the Evaluation of Bulgaria by the Fifth evaluation round of the Committee of Experts for the Evaluation of Anti-Money Laundering Measures (MONEYVAL) in 2021, an Efficiency Questionnaire was filled out in FSC. Within the reporting period, MONEYVAL's evaluation team conducted a series of interviews and meetings with the participation of representatives of the Commission. Additional information was provided in the form of statistics and questionnaires related to the preparation of the final draft of the report and the participation of FSC officials in the meeting with the evaluation team in Strasbourg, France and in the MONEYVAL plenary session to discuss key issues and adopt the official report.

## **4. Activities of FSC for resolution of investment firms**

The scope of RRCIIFA includes investment firms (IFs) that carry out transactions for own account with financial instruments and underwriting issues of financial instruments and / or offering for initial sale of financial instruments under the conditions of unconditional and irrevocable obligation to subscribe /acquire financial instruments for own account, provide services related to underwriting issues of financial instruments and /or offering for initial sale of financial instruments under the conditions of unconditional and irrevocable obligation to subscribe /acquire financial instruments for own account, as well as those that store and administer financial instruments for own account of clients, incl. perform custodial activity and related services.

FSC, in its capacity of body for resolution of IFs under Art. 1, para. 1, item 2 - item 7 of the Recovery and Resolution of Credit Institutions and IFs Act (RRCIIFA), upon proposal of FSC member, exercises its functions on resolution of IFs on an individual and consolidated basis, supported by an independent structural unit.

In 2021, in accordance with Commission Delegated Regulation (EU) 2015/63 of 21.10.2014, FSC determined target level and the annual contribution of every IF 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 FSC are determined individual annual contributions for 2021 for each IF with a full licence in the amount of EUR 1,000 (BGN equivalent of BGN 1955.83).

According to Art. 7, para. 3 of the RRCIIFA, a review of recovery plans for IFs 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 their resolution.

In 2021, communication with the Single Resolution Mechanism (SRM) continued, as representatives of FSC, in the capacity of an observer, participated in the Plenary Sessions of the SRM and in the sessions of the SRM Resolution Committee. During the summer, the SRM provided Commission-designated representatives with online training on working with the new centralised document management system - FORA.

In 2021, simplified obligations were set for IFs and institutions under Art. 1, para. 1, item 3 - item 9 of the RRCIIFA in the preparation of the recovery/resolution plans, and were adopted by FSC.

At the end of 2021, the European Parliament and the Council initiated a proposal for a Directive to create a framework for the recovery and resolution of insurers and reinsurers; FSC is actively involved in this and periodically provides opinions.

## 5. Protection of the consumers of non-banking financial services

Since its establishment in 2003, 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 main priority.

The protection of users of non-banking financial services (investors, insured and socially insured persons) 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;
- providing accurate and comprehensive information about the non-banking sector and the actions of the institution through various communication channels.

In 2021, 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

Access to financial information, as well as information on all activities carried out by the Financial Supervision Commission, is carried out to end-users and its supervised entities through various communication channels. They can be summarized as follows:

- publications on the Commission's two public websites: <https://www.fsc.bg/bg/> and <http://www.tvoitefinansii.bg/>;
- posts on the Commission's new channels on LinkedIn and Youtube;
- organisation of media campaigns;
- participation with news, statements, and media interviews;
- providing information to citizens and supervised entities on particular and specific cases upon request at the information centre of FSC.

The representative participation of the management and experts of FSC in various public forums, round tables, national and international conferences, and events further contributes to the sharing of current, analytical, and prognostic information.

#### **Institutional page of FSC – [www.fsc.bg](http://www.fsc.bg).**

The website publishes up-to-date information on the regulatory and supervisory activities of FSC, on the measures taken by the Commission for the Financial Stability of the Non-banking Financial Sector. Information about the supervised entities is constantly published - statistics, reports, amount of capital and other essential data 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 order to improve the awareness and expand the knowledge and literacy of the public about new products entering the market and the risks arising from them, FSC periodically prepares and publishes materials on its website, for example - a robo adviser, collective investment scheme, mutual fund, etc.

In 2021, more than 1,595 materials were published on the institutional website of FSC, of which: 250 news, 682 Commission decisions, 54 statistics, key information for investors - 555, insurance-related materials - 41 and social insurance-related materials– 13.

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.

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 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.

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 on 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.

Proof of the good communication policy during the year is the large number of visitors to FSC website. For the period 01.01.2020 - 31.12.2020 the site [www.fsc.bg](http://www.fsc.bg) was visited by 189,863 users. Of these, 182,849 visited it for the first time.

In July, FSC adopted a new Strategy for Monitoring Financial Innovations in the Non-banking Financial Sector for the period 2021-2024. An action plan was also adopted, in which the implementation of educational programs for the interested parties is envisaged. For the implementation of this plan, FSC will partner both with the Bulgarian Fintech Association and with international regulatory bodies.

In November, FSC adopted a new Program for Consumer Protection in the Non-banking Financial Sector for the Period 2021-2024 and an action plan, which set a strategic goal of developing a policy to increase the financial literacy and culture of consumers of products and services provided by non-banking financial markets.

In December 2021, FSC launched the digital campaign #Invest safely, aimed at protecting consumers from unlicensed investment firms. Thus FSC took another digital step in its communication to give basic guidelines on how consumers can distinguish legitimate from fraudulent investment firms. The campaign was launched with a dedicated website, available in both Bulgarian and English. #invest safely is also deployed on the social channels YouTube and LinkedIn, and the attractive visual content created by the Commission team reaches a large number of online users and draws their attention to the questions they need to ask themselves or to the situations which might happen to them if they decide to become investors.

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

The website “Your Finances“ is consumer-oriented and enables the consumers of financial services to be informed easily and conveniently of the main specifics in the three sectors of supervision carried out by FSC. It describes in detail various financial products, divided into insurance, pension and investment. Information on consumer rights and advice that would be of interest to visitors 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 2021, the site underwent a complete visual, content, and technological overhaul to offer a tailored digital approach for advice to consumers of non-banking financial services. Based on the analysed feedback from the users, the content was adapted to allow a better interaction, directly responding to their current questions and needs. For the period 01.01.2021 - 31.12.2021 the site “Your finances” was visited by 15,613 users. Of these, 15,000 visited it for the first time. The average number of visits to the site per day is about 40 users.

**Information Centre**

In 2021 the Information Centre of the Financial Supervision Commission kept receiving inquiries from both supervised entities and citizens who need information on issues and cases on various topics. The Financial Supervision Commission has a specialized toll-free telephone number: 0800 40 444, available to all citizens, and inquiries are accepted by e-mail or by on-site visit. In order to continue to develop and ensure quality and transparent communication with external audiences, from the month of February 2021 the Information Centre of FSC entered the digital era with the configuration of the new IVR system (Interactive Voice Response System). Now there are automatic responses for users in Bulgarian and English on the telephones of the Information Centre.

In 2021, the Information Centre of FSC received a total of 4,017 calls from citizens, divided by supervision: social insurance supervision - 62, insurance supervision - 1,104 and investment supervision – 1,357 calls, the rest of the calls concern administrative issues. In percentage terms, the largest number of inquiries are related to the Investment Activity Supervision Division- 33%, followed by Insurance Supervision with 27% and Social Insurance Supervision with 1.5%. There were 1,494 calls from citizens and supervised entities related to administrative issues. There were 43 on-site visits by citizens. By month, telephone inquiries are as follows: 667 in January, 425 in February, 530 in March, 252 in April, 254 in May, 432 in June, 395 in July, 179 in August, 214 in September, 266 in October, 247 in November and 156 in December.

The trend of the most calls in the month of January is preserved in 2021 and is in connection with the submission of reports and statements as of 31.01.2021.

The most frequently asked questions by citizens to the Information Centre of FSC are in connection with the filing of complaints and reports against insurers for unpaid claims within the legal term established in the Insurance Code, as well as other regulatory violations; inquiries for verification of licensed investment firms, as well as complaints against unlicensed firms; questions about universal pension funds and the transfer of funds between them and the National Social Security Institute; inquiries about voucher books and owned shares in the former privatization funds.

The number of calls to the Information Centre remains high in 2021, despite the complicated situation related to the COVID-19 pandemic. Given the above data, it can be summarized that FSC Information Centre retains its popularity for both citizens and participants in the non-banking sector.

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

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

During the past year, the Chairman of the Financial Supervision Commission, as well as its members, participated in various public initiatives and conferences.

On 8 March 2021 the Deputy Chairperson of the Financial Supervision Commission in charge of the Investment Activity Supervision Division, Ms. Maria Filipova, took part in “Ring the Bell for Gender Equality”, an international initiative dedicated to the celebration of International Women’s Day - March 8. Together with the women's management team of the Bulgarian Stock Exchange (BSE), Ms. Maria Filipova opened the stock market session for the day.

On 30 March 2021 Mr. Vladimir Savov - Deputy Chairperson of the Financial Supervision Commission, in charge of the Insurance Supervision Division, participates in the international conference Fintech Summit 2021, gathering the community of financial technologies and held annually by "Capital".

In April 2021 was the official start of the first and only think tank for sustainable finance and energy in Bulgaria - Green Finance & Energy Centre. The Green Centre was established on the initiative of the Bulgarian Stock Exchange (BSE) and the Independent Bulgarian Energy Exchange (IBEX) and is realized with the support of the Ministry of Finance, the Ministry of Energy, the Financial Supervision Commission, and the Fund of Funds. The opening conference was attended by Ms. Maria Filipova, Deputy Chairperson of the Financial Supervision Commission.

On 28 April 2021, the Financial Supervision Commission (FSC), represented by the Secretary General, Ms. Denitsa Kirova, publicly presented the project: “Establishment of a Single Information System (UIS) for the Financial Supervision Commission”. The project is implemented under administrative contract No. BG05SFOP001-1.011-0001-C01 / 23.07.2020 for the provision of grants under the Operational Program “Good Governance” (OPGG), co-financed by the

European Union through the European Social Fund under the procedure BG05SFOP001-1.011 by directly providing a grant concluded between the OPGG Managing Authority and the Financial Supervision Commission.

In the month of May, Mrs. Anka Kostova - Director of the Public Relations and Protocol Directorate gave an interview to the Bulgarian National Television. Ms. Kostova's participation was in connection with an additional inspection of the activities of Gradus AD by the Financial Supervision Commission and the issue with the company.

On 27 May 2021 for the 13th consecutive year the award ceremony “Insurer of the Year”, “Pension Insurance Company of the Year” and “Insurance Broker of the Year” for 2020 was held. The organisers of the ceremony are the Higher School of Insurance and Finance (VUZF), Association of Bulgarian Insurers (ABI), Bulgarian Association of Supplementary Pension Insurance Companies (BASPSC), Prof. Dr. Veleslav Gavriyski Foundation and the Bulgarian Association of Insurance Brokers (BAIB). Special guests at the ceremony were Mr. Boyko Atanasov, Chairman of the Financial Supervision Commission, Mr. Vladimir Savov, Deputy Chairperson of the Financial Supervision Commission in charge of the Insurance Supervision Division, Ms. Diana Yordanova, Deputy Chairperson of the Financial Supervision Commission in charge of the Social Insurance Supervision Division.

The official ceremony of awarding the winners in the 10th edition of the National Audit Competition for Students “Young Auditor” 2021 took place on 9 June 2021 in the hall of the Higher School of Insurance and Finance (VUZF). Ms. Diana Yordanova, Deputy Chairperson of FSC in charge of the Social Insurance Supervision Division took part in the ceremony.

In September 2021 Mr. Vladimir Savov, Deputy Chairperson of the Financial Supervision Commission in charge of the Insurance Supervision Division, participated in an international conference on “Risk-based insurance supervision - the way forward in the post-pandemic world”, organised by the Croatian Financial Services Supervisory Agency (HANFA). The event brought together representatives of regulatory authorities from Central and Eastern Europe, who discussed insurance risks and prospects in the post-pandemic environment.

Bulgarian regulators in the field of insurance services, prominent insurers, as well as representatives of the technology sector met at the business breakfast “The Next Frontier for Insurance,” organised by Software Group - a global technology partner of financial institutions in the field of digitalisation and supported by Microsoft and PwC. The Financial Supervision Commission was represented by Mr. Vladimir Savov.

On 13 October 2021 Ms. Maria Filipova - Deputy Chairperson of FSC in charge of the Investment Activity Supervision Division participated in the BSE awards for excellent performance at the examinations organised by FSC for brokers and investment advisers

In the end of November 2021 the Higher School of Insurance and Finance (VUZF) and the Laboratory for Scientific and Applied Research VUZF Lab, together with the Bulgarian Stock Exchange (BSE), organised a round table on “The Green Deal and the Future of Investment and Banking”. A special guest was Mr. Boyko Atanasov, Chairman of the Financial Supervision Commission, who opened the event. He personally congratulated the organisers and Assoc. Prof. Dr. Grigory Vazov, Rector of the VUZF, for initiating the professional and expert debate, which



aims to discuss aspects and expected effects of the Green Deal with the banking and investment community in Bulgaria.

In order to increase public awareness and trust, the activity of the Financial Supervision Commission in 2021 was also actively reflected in a total of 7,115 media publications (press, television, internet, radio, etc.).

Mr. Boyko Atanasov also opened the educational program held for the nineteenth time for students on the topic "The non-banking financial sector in Bulgaria". Given the epidemic situation, the program was conducted online. Three webinars were organised - on October 8, 15 and 22, dedicated to each of the non-banking markets - social insurance, capital, and insurance. Due to the online format, the participants were more than 42 and the survey showed great interest and satisfaction with the program.

In 2021, 14 meetings of the interdepartmental task force for the preparation of a National Strategy on Financial Literacy took place, in which the Financial Supervision Commission actively participates.

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

### **Media communications**

During the past 2021, the Financial Supervision Commission carried out active communication 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, 250 news items were published on the website and 17 press releases were sent to the media. Answers to journalist questions are provided on a daily basis.

During the year, the management of the Financial Supervision Commission was actively present in the media.

This was said by Mr. Vladimir Savov - Deputy Chairperson of the Financial Supervision Commission in charge of the Insurance Supervision Division in a special interview for dir.bg. In 2021, Mr. Savov also gave 3 interviews to various media.

Mr. Petar Dzhelepov - Member of the Financial Supervision Commission made an address at the Annual Report of the Bulgarian Fintech Association

In 2021, the activity of FSC was actively covered in the media with a total of 7,155 publications, which is about 4% more compared to 2020, and in the media channels they are distributed as follows: press - 420, television - 23, internet - 6,699, radio - 13.

In 2021, the Financial Supervision Commission prepared two issues – a monthly Newsletter published on FSC website and the Annual Report of the Financial Supervision Commission for 2020 summarizing the activities of the supervisory institution and reflecting the state of the non-banking sector in Bulgaria in 2020.

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 FSC, the decisions of the Members of 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 provide awareness of the economic, social, and financial trends at a national and international level, two monitoring reviews are prepared daily - a review of media publications related to the activities of FSC and the leading financial, economic, and political news. A total of 562 monitoring reviews were prepared for 2021, 20 of which were related to extraordinary news and topics.

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

The protection of consumers of financial products and services is one of the statutory objectives of FSC. A major functions of FSC Member under Art. 3, item 5 of FSCA is the consideration of complaints filed against entities supervised by the Commission, as well as against entities who provide financial products and services without license.

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 entities of FSC. 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, FSC shall provide information on the existence of such a mechanism, if they are not satisfied with the decision of the supervised entities or the relevant sectoral conciliation commission.

In order to analyse the complaints received from consumers, FSC has a process in place for managing complaints, the results of which are used to improve the supervisory activity and to improve the regulatory framework. Each received complaint is inspected, if necessary acts for establishing administrative violations are issued, recommendations are made to the supervised entities, coercive measures are imposed, actions are taken within the legal powers of FSC's 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 supervised by FSC, as well as the behaviour of participants on financial markets. The actions performed by 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 FSC's bodies as a result of the analysis was the basis for establishing and maintaining a high level of confidence of consumers in the products and services offered on the financial markets. It also maintains a 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 and the confidence in these markets, by acting as incentive for their efficiency and transparency.

The analysis of complaints and inquiries for and issues raised, the main reasons that led to their emergence, 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 regarding the participants in the financial markets supervised by FSC.

**In 2021, FSC received 1,198<sup>39</sup> complaints and inquiries** related to the activity of entities supervised by FSC. Their number remains almost the same compared to 2020, when there were 1,204. (-6). Discipline in the market, improving the market behaviour of financial service providers and products, more careful and fair treatment of consumers, are the main reasons for retaining the number of complaints. On the other hand, this is due also to FSC's policy of providing information on its legal powers, on the ability of consumers to resolve disputes with providers.

The number of complaints has changed over the years as follows: In 2017 it increased to 1,438, and in 2018 it reached its highest value of 1,943, after which in 2019 it decreased again to 1,492 complaints and the trend is preserved in 2020 and in 2021.

The presented analysis of the complaints for 2021 is based on 990 received<sup>40</sup> complaints on which the institution is competent to deliver an opinion.

With respect to the complaints within competence for the period from 2017 to 2021, there was no clear upward or downward trend in their number. In 2017, their number increased to 1,415, and in 2018 - to 1,656 complaints by jurisdiction. A significant decrease is reported in 2019 compared to the previous two years - up to 1,203, and the same decrease is observed in 2020, reaching 993, and in 2021 it remains at 990<sup>2</sup> complaints on which FSC is competent to deliver an opinion.

In addition to complaints, 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 2021, only 81 inquiries were registered in this database.

FSC also receives complaints for which the institution is not competent to deliver an opinion. They are processed in a timely

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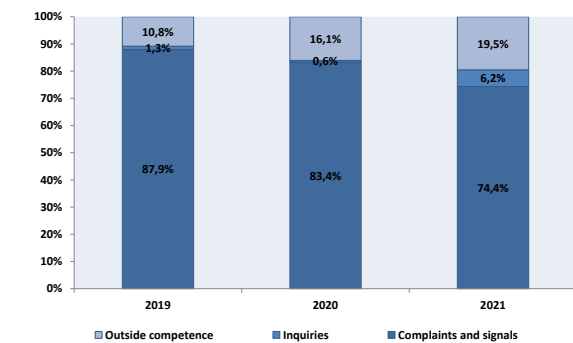
<sup>39</sup> The indicated 1,198 complaints are calculated by excluding from 1,458 (total received) files, the complaints and inquiries, which are not against actions of persons supervised by the FSC. The value of 1,198 represents received complaints and inquiries within competence within 2021, 127 of them were processed by the specialized divisions.

<sup>40</sup> Addressed to the Analyses, Complaints and Resolution Directorate (and processed by it opinions on complaints).

manner and forwarded 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.

The statistical information analysed since 2017 shows that the number of complaints outside FCS's competence increases. In 2017, compared to 2016, a minimal increase of only 2 complaints was registered - from 110 for 2016 to 112 complaints for 2017. For 2018, there were 106, while in 2019, an increase was reported again to 146 complaints outside FCS's competence. In 2020, growth was again observed - up to 191, and for 2021 they reached their peak of 260 complaints outside FCS's competence

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



Source: FSC.

Complaints on which the institution was competent to deliver an opinion represented 74.4 % of the total complaints and inquiries in 2021. In 2021, compared to 2020, there was a decrease in the proportion of complaints for which the institution was competent, from 83.4% to 74.4%.

For comparison, in the period 2017 - 2020 this share is relatively constant, over 80%. In 2020, a slight decrease was

registered compared to 2019 to 83.4%, which continues in 2021, reaching 74.4%. For comparison, the share of complaints within competence ranges as follows: from 91.4% in 2017, 93.1% in 2018, 87.9 in 2019.

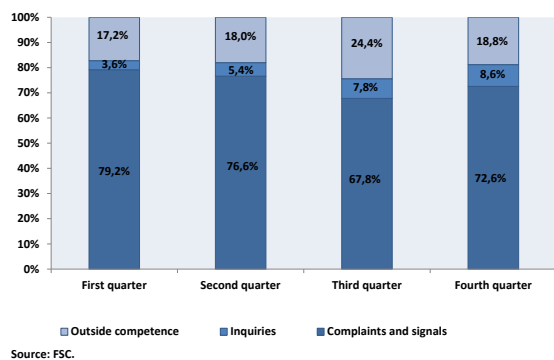
For the last 5 years, the share of inquiries varies between 6.2% and 0.6%. In 2021, there was a growth of 6.2%. In 2017 it was 1.5%, in 2018 it decreased to 0.9%, in 2019 there was a slight increase to 1.3%, and in 2020 it dropped to 0.6%.

The share of complaints for which the institution is not competent increased during the considered five-year period. The share of these complaints in 2017 was 7.2%, in 2018 it was 6.0%, in 2019 – 10.8%, and in 2020 it was 16.1% of the total share of received complaints and inquiries. In 2021, they marked growth again and reached 19.5% of the total.

In 2021, the ratio between complaints, inquiries, and alerts for which the institution is not competent is maintained by quarters. Complaints within the competence of FSC represent 79.2% of all complaints received in the first quarter of 2021. In the second quarter their share was 76.6%. In the third quarter it decreased to 67.8%, and in the fourth quarter it increased to 72.6%.

The dynamics of the number of complaints of incompetence during the year does not show a clear trend. In the first quarter of 2021 they had the lowest share, namely 17.2% of all received complaints, in the second and fourth quarter they increased to 18.8%, and in the third quarter they had the highest share of 24.4%.

**Graph 2. Dynamics of complaints, inquiries and signals filed with FSC in 2021 by quarters**



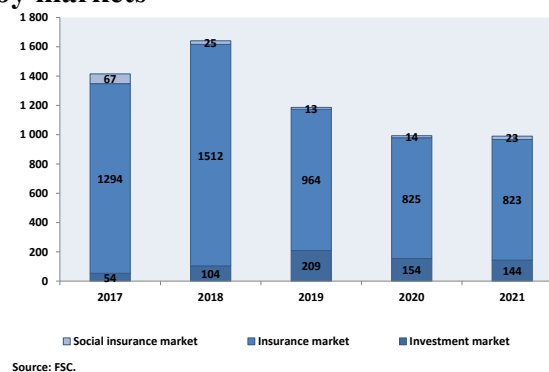
Of the analysed 990 complaints received in 2021, for which the institution is competent, most are complaints against actions of persons operating in the insurance market - 823. The number of complaints related to the services offered on the social insurance market is insignificant, only 23. There are 144 complaints against actions of entities operating on the investment market.

In 2021 compared to 2020 there is a decrease in complaints concerning the insurance market. Their number is similar – for 2020, they numbered 825. For the 5-year period under review, there is a general trend towards a decrease in complaints on the social insurance market. For 2017 they were 67, while in 2018 they decreased to 25. In 2019 they were 13, and in 2020 - 14 complaints. For 2021, they mark a slight increase, close to that in 2018, namely 23.

For the period 2017-2021, there was an initial increase, followed by a decrease in the last 2 years, in the number of complaints received in relation to the services and products offered in the investment market. In 2017 they were 54, in 2018 they increased to 104, in 2019 - 209, in 2020 they decreased to 154, and in 2021 there were 144 complaints. The last decrease is a result of a drop in the number of complaints against actions of

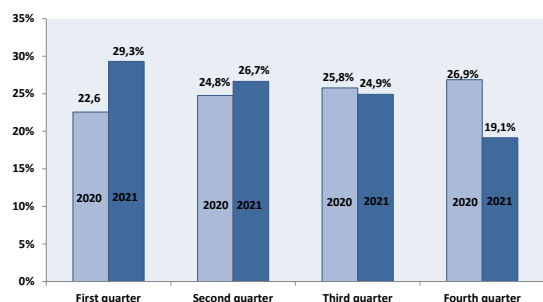
persons who do not have a licence to perform activities for the provision of investment services.

**Graph 3. Dynamics of complaints at FSC by markets**



Within 2021, by quarters, there is no clear trend to increase or decrease the number of received complaints within the competence of FSC. Their distribution is as follows: in the first quarter of 2021, they made up 29.3% of the complaints within the competence of FSC for the year, which is more compared to the same period of 2020 – 22.6%. In the second quarter of 2021, 26.7% of the total number of complaints within competence for the year were received, and compared to the same period of 2020 no significant change was observed. In the third quarter of 2020, 25.8% of the complaints were received, while in the third quarter of 2020 they represented 23.5%. In the fourth quarter of 2020, 26.9% of the complaints were received. For comparison, in the fourth quarter of 2019 the share was 19.4%.

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



Source: FSC.

Complaints related to the insurance market represent the largest share of received complaints within competence in 2021 - 83.1%. For the period 2017 - 2021 this level remained over 80.0%. For comparison, the share of this type of complaints during the period is as follows: in 2017 - 91.4%, in 2018 - 92.1%, and in 2019 - 81.3%.

The share of complaints relating to the social insurance market, in the last few years is relatively small, as in 2020 they represent 1.4% of all received complaints within the competence of FSC. The share remains the same as 2019 - 1.1%, in 2018 - 1.5%, in 2017 - 4.7%. The lowest share of received complaints for 2021 was observed in the fourth quarter - 19.1% of the total.

The complaints against persons operating on the investment market in 2021 are 14.6%. In 2020 they were 15.5% of all complaints received and there was a decrease compared to 2019 when their share was 17.6%. For 2017 and 2018, the values are significantly lower – 3.8% and 6.3%, respectively.

FSC also receives complaints related to the provision of investment services by persons who do not have a licence for this. Typically, services are provided through electronic platforms, remotely. The complainants 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 entities other than those with whom they have entered into a contractual relationship. Complaints are often submitted to FSC by foreign persons due to the connection of electronic trading platforms in some way with Bulgaria.

The distribution of complaints by sectors is maintained by quarters in 2021. In the first quarter of 2021 the share of complaints related to the insurance sector was 26.1%, in the second quarter - 25%, in the third quarter - 16.7%, and in the fourth quarter - their relative share is 15.5%. Complaints against actions of pension insurance companies have an equal relative share in each quarter of 2021. Complaints from the investment market have the highest relative share in the third quarter of 2021, and the lowest - in the second quarter of the year.

**Table 27. Dynamics of the structure of complaints by market segments**

	2018	2019	2020	2021				2021
				Q1	Q2	Q3	Q4	
Insurance market	92.1%	81.3%	83.1%	18.3%	20.4%	21.4%	23.1%	83.1%
Investment market	6.3%	17.6%	15.5%	3.8%	4.2%	4.0%	3.4%	14.6%
Social insurance market	1.5%	1.1%	1.4%	0.4%	0.2%	0.4%	0.4%	2.3%

The largest share of complaints a falling outside the competence of FSC in 2021 are those related to credit products - 22.7%, some of which were provided by non-banking credit institutions. In second place are the complaints related to remittances - 4.2%. Complaints related to savings products and mobile services account for a relative share of 0.8% and 2.3%, respectively, and others - 70% of the total.

**Table 28. Structure of complaints outside FCS's competence**

	2020	2021
Credit products	27,8%	22,7%
Money transfer	4,2%	4,2%
Savings products	0,5%	0,8%
Mobile services	2,6%	2,3%
Taxes	0,0%	0,0%
Others	64,9%	70,0%
	<b>100,0%</b>	<b>100,0%</b>

Source: FSC.

FSC continues the established practice - in 2021 to forward complaints outside its competence to the institutions in whose competence they are.

In 2021, 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 62.7%. For 37.3% of the complaints outside the competence of FSC, the competent body is the Consumer Protection Commission, CRC, Court, Prosecutor's Office, SANS, and others.

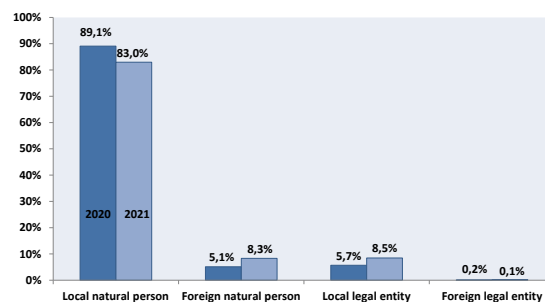
**Table 29. Structure of complaints by competent institutions other than FSC in 2021**

	2020	2021
Bulgarian National Bank	61,8%	62,7%
National Revenue Agency	0,0%	0,0%
CRC, CPC, Court, Prosecutor's Office, completely outside competence	38,2%	37,3%
	<b>100,0%</b>	<b>100,0%</b>

Source: FSC.

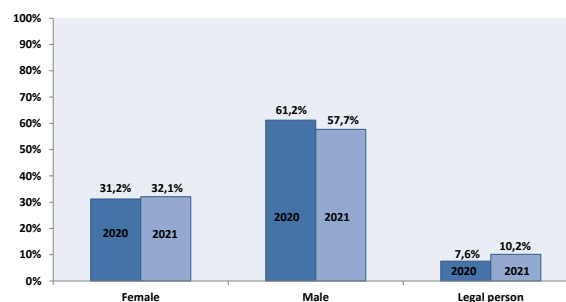
Analysing consumer complaints in 2021, by legal entity, it can be said that complaints and inquiries submitted by local individuals have a share of 83% compared to 89.1% in 2020. Local legal entities have a share of 8.5%, compared to 5.7% for 2020. Foreign individuals have a share of 8.3%, and foreign legal entities - 0.2%.

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



The analysis of the complaints in terms of activity in seeking their consumer rights shows that men are prevalent over women - 57.7% to 32.1%. The complainants that are legal entities accounted for 10.2% of all complaints and inquiries. There is no significant change compared to 2020, as again men are more active - with a share of 61.2% and women with a share of 31.2%.

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

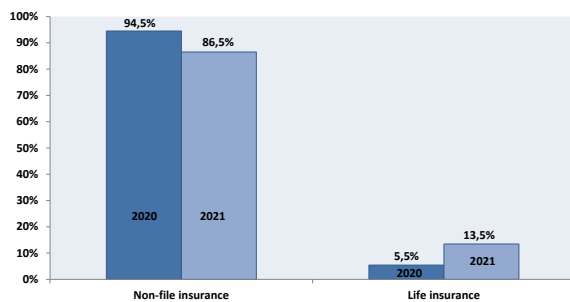


## Insurance market

The trend for the complaints relating to the insurance market to have the highest relative share remained in 2021. 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 86.5% in 2021, compared to 94.5% in 2020. The higher share 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 5.5% in 2020 to 13.5% in 2021. This increase is also related to the conclusion of a larger number of insurance contracts in this sector.

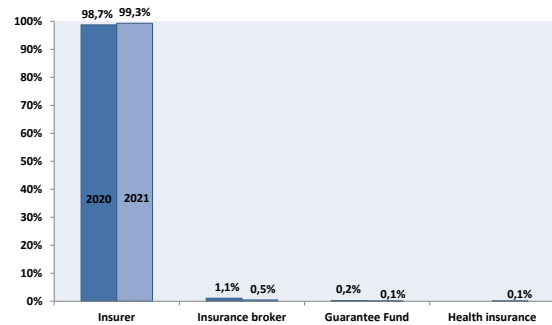
**Graph 7. Dynamics of complaints related to non-life and life insurance**



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 99.3% 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 2021 is close to the one in 2020 (98.7%). During the year, the complainants also complained about the actions of insurance brokers and the Guarantee Fund, however their share was insignificant.

**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 the most widespread insurance Motor Third-Party Liability - in 27.2% of the cases. Secondly, the applicants express complaints regarding disagreement with the amount of compensation paid under Casco and Third-party liability insurance (11.5%). Secondly, the complainants complained against the refusal to be paid compensations under Casco insurances (13.6%). In fourth place, with 8.4%, are complaints in which the complainants object to unfair practices of insurers.

For comparison, in 2020 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 2021**

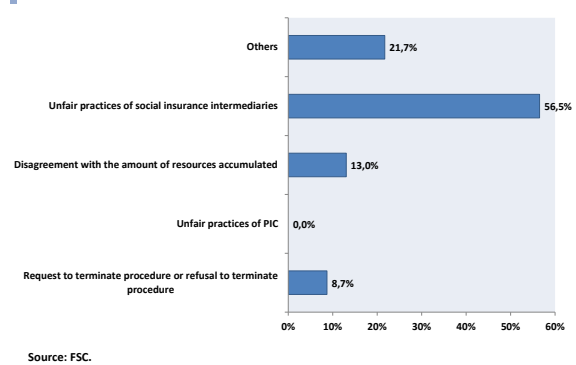


### Social insurance market

Unfair practices by insurance firms is the most common subject of complaints related to the insurance market in 2021. Their share is 56.5% of all complaints received in connection with the insurance market. In second place are disagreements with the amount of accumulated funds (13%), and in third place with 8.7% are complaints against a request for termination of the procedure or refusal to terminate the procedure for transferring funds from one SPF to another.

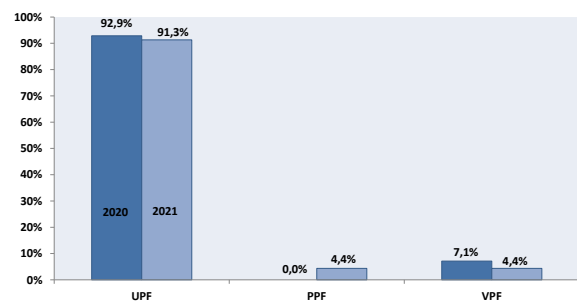
For comparison, in 2020 a request for termination of the procedure or refusal to terminate the procedure is the most common subject of a complaint related to the social insurance market.

**Graph 10. Distribution of complaints in the social insurance market by subject of the complaint in 2021**



The trend of complaints related to the social insurance market and concerning mainly universal pension funds (UPFs) remained unchanged in 2021. Their share was 91.3 % 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. For 2021, there is only one complaint concerning VPF.

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



### 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 licence. In this regard, FSC focused its efforts on taking actions to limit the supply of investment services by

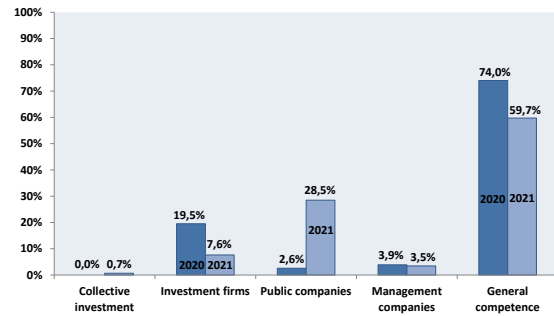
non-licensed companies and to create a competitive environment with adequate investor protection for the development of the investment business. The official website of FSC publishes the entities who were found to carry out an investment activity without a licence, and the relevant law enforcement authorities 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 2021, most complaints from the investment market are against actions of unlicensed companies, most of them are not based in Bulgaria. Their share amounts to 59.7%. In second place are complaints against public companies - 28.5%, and in third place are investment firms or entities providing investment services and products (7.6%). The share of complaints against management companies is 3.5% of the total.

Compared to 2020, in 2021 there is an increase in complaints related to public companies from 2.6% to 28.5%. The main subject-matter of these complaints relates to tenders, in particular against the price of the tender. A small drop is reported in the complaints related to the activity of the management companies, as their share decreases to 3.5% in 2021 from 3.9% in 2020.

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



Source: FSC.

### Results from the processing of complaints, signals, and inquiries in 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 necessary. 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 part 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 FSC does not have the authority to undertake any actions. In 23.4% of the cases, insurance compensations were paid after a complaint had been filed to FSC, and in 47.5% of the

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

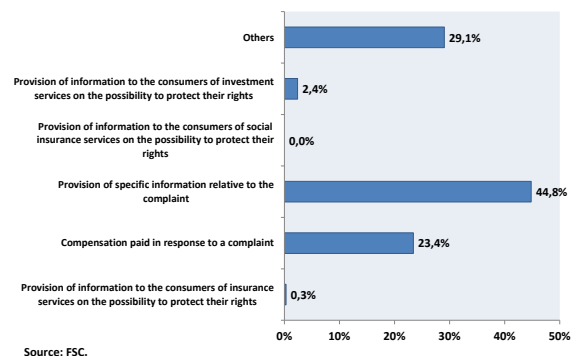
Very often, the consumer complaints involved civil litigation between the complainant and the supervised entity which was beyond the competence of FSC and which should be referred to a sectoral conciliation committee for extrajudicial dispute agreement or the competent court for consideration and resolution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

In response to complaints, FSC 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 2021, there was a relative retention of the share of cases when compensation was paid after filing a complaint to FSC. This proves the effectiveness of the institution in carrying out its function of protecting consumers of investment, insurance and insurance services. The effectiveness of FSC'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, 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.

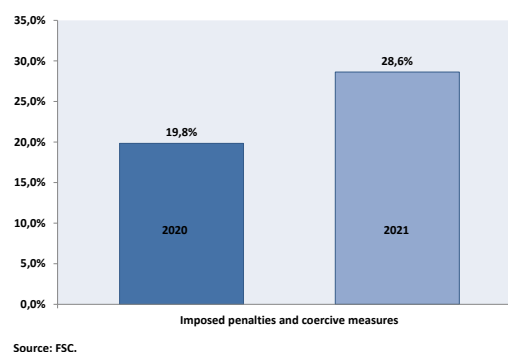
**Graph 13. Structure of the actions undertaken in response to complaints, inquiries and signals received by FSC in 2021**



As a result of inspections performed in 2021, there was an increase in the number of cases where penalties and coercive administrative measures were imposed to supervised entities, their percentage increasing to 28.9% of all complaints within FSC's competence, as compared to 19.8 % in 2020.

The analysis of the prepared answers to the complaints and inquiries, as well as of the actions taken by 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 entities, were granted.

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

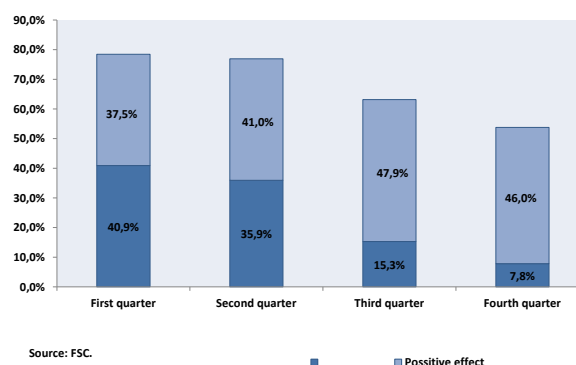


For 28.6% of the complaints and inquiries in 2021, a positive effect was shown

due to 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 2021, the highest proportion of the positive effect was recorded in the third quarter of the year – 47.9%, and the lowest in the first quarter of the year - 37.5%.

**Graph 15. Effect of FSC's activity on protecting the interests of the consumers of non-banking financial services. Effect of FSC's activity**



### 5.3. Policy of financial literacy

During 2021, the Financial Supervision Commission took 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 organisations that exercise their activity in the field of financial education.

In 2021 the Financial Supervision Commission conducted the XIX edition of the educational program: The Non-banking Financial Sector in Bulgaria in partnership with the Ministry of Education and Science (MES) and the Atanas Burov Foundation.

The program is specifically aimed at students and teachers in secondary schools of economics. For the second year, the event took place online in the form of three webinars on 8, 15 and 22 October. On the three consecutive Fridays in October, the following topics were presented: Social Insurance Market, Insurance Market and Capital Market. For the first time, students were introduced to several new topics, namely Consumer Protection, Fintech Business Models and Cybersecurity and Cryptocurrencies. The lecture was followed by a practical step in which the participants virtually visited a pension insurance and insurance company, an investment firm, and the Bulgarian Stock Exchange, where they witnessed how the capital market works, understood the nature of insurance and why pension insurance is necessary.

Thirty students and twelve teachers from secondary vocational schools with economic and financial profile from the cities of Blagoevgrad, Burgas, Varna, Veliko Tarnovo, Vidin, Velingrad, Gorna Oryahovitsa, Gotse Delchev, Dryanovo, Kyustendil, Kardzhali, Montana, Pazardzhik, Petrich, Pernik, Plovdiv, Razgrad, Ruse, Svishtov, Silistra, Sliven, Smolyan, Sofia, Stara Zagora, Haskovo and Shumen took part in the XIX edition of the educational program. The main goal of the educational program is for the students from the secondary vocational schools in Bulgaria to gain valuable knowledge about the financial sector, about the management of personal finances, as well as about the specifics of the activity of the Financial Supervision Commission. The program "Non-banking Financial Sector in Bulgaria" is one of a kind for our country. It is one of the longest-standing initiatives of the Financial Supervision Commission, launched since its

inception and has become a true tradition. The aim of the educational program is for students from secondary vocational schools in Bulgaria to get an excellent opportunity for career guidance in the non-banking financial sector, as well as to increase their knowledge and financial literacy, this is one of the strategic goals of the Commission - consumer protection through financial literacy.

The Commission has taken active actions to analyse and monitor financial innovation in the non-banking financial sector. On 15 and 16 April 2021, the next module of the FIN-TECH project of the University of Economics - Varna was launched, funded by the Horizon 2020 program of the European Commission. The online session was attended by experts from the Financial Supervision Commission, the University of Economics - Varna, the Bulgarian Fintech Association, and representatives of fintech companies in Bulgaria. Within the two days of the training, the Bulgarian fintech ecosystem was discussed, as well as real cases of using blockchain in fintech, cyber risk management through models based on rank scale and explicable artificial intelligence, smart contracts - management, opportunities and risks, the cryptocurrency market and methods for its analysis by applying various cluster techniques based on prototypes, etc.

The event is held within the project FIN-TECH “A FINancial supervision and TECHnology compliance training program,” funded by HORIZON 2020, in which the University of Economics - Varna and the Financial Supervision Commission represent Bulgaria in a consortium of 24 countries. Each of them is presented by an educational institution in the field of higher education and a regulatory body for the non-banking sector. 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 constant dynamic development of the market of financial innovations worldwide, including at European level, and in implementation of the Financial Technology (FinTech) Monitoring Strategy in the non-banking financial sector (2021 - 2024), in 2021 the Financial Supervision Commission took a number of initiatives to 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.

FSC experts participated in the key events, such as: international trainings, meetings, and seminars to upgrade knowledge, discuss procedural frameworks, etc.

FSC representatives also took active part in the working groups of the European Supervisory Authorities ESMA and EIOPA, as well as in the organised workshops.

In 2021, the Strategy for monitoring financial innovations in the non-banking financial sector (2021-2024) and an Action Plan were prepared.

In order to track market developments, analyse trends and define risks, in 2021 FSC conducted a survey among supervised entities on the financial innovation market and the use of artificial intelligence in their activities. Feedback on the questionnaire was received from 106 supervised entities. The most active were the insurance brokers - 81%, followed by the insurance companies - 16%. Investment firms and pension insurance companies have fewer responses.

In 2021, within the framework of the established mechanism for cooperation with business - Innovation hub, the FCS considered and analysed the received inquiries about the regulatory framework and the law applicable to the specific cases submitted by Bulgarian and foreign companies.

Experts from FSC took an active part in the draft DORA regulation: 2nd global compromise proposal - DDL.

In order to popularize the Commission's activity in the field of Fintech, a special interview on the subject with a Member of FSC was published on the pages of the publication of the Bulgarian Fintech Association for the presentation of the Annual Report 2021.

## **7. International activity and cooperation**

### **7.1. European dimension**

FSC, as a participant in the European System of Financial Supervision (ESFS), is actively involved in the activities of the European supervisory authorities (ESMA and EIOPA) in order to associate the Bulgarian non-banking sector to the single European financial market. FSC is part of the governing bodies and participates in the board meetings of the European Securities and Markets Authority (ESMA) and the European Insurance and Occupational Pensions Authority (EIOPA), supporting their activities through expert participation in the working committees and groups set up for them. In addition, 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: Assessment by the European Supervisory Authorities (ESAs) of the independence of national competent authorities***

In 2021, the three European Supervisory Authorities (ESAs) carried out an assessment of the independence of the national competent authorities under their new powers following changes to their organisational regulations. The changes became effective in January 2020, complementing and strengthening the powers of the European authorities, including their role in promoting and monitoring the independence of national financial supervisors.

The evaluation of the ESAs was carried out according to pre-approved criteria, namely: operational and financial independence, accountability and transparency. Three separate reports have been produced as a result of the assessment, which are published in full at the following

address: <https://www.esma.europa.eu/press-news/esma-news/european-supervisory-authorities-publish-sectoral-reports-supervisory>.

The reports indicate that different approaches are observed in individual countries to ensure the key points in the independence of the competent authorities. For example, in terms of operational independence, while the majority of competent authorities are located outside the executive branch, such as FSC, in some countries they are established under a relevant minister and are obliged to respond to inquiries made by other government authorities. Also, some countries note that there are limits on the number of staff they can employ for their supervisory tasks.

Regarding financial independence, different approaches and funding models are also observed, with the budgets of some bodies being part of a centralised state budget, while others are independent of state budgets, including the possibility of earmarking revenue reserves. As one of the IOSCO Principles prescribes, financial regulators should have a stable source of funding sufficient to exercise their powers and responsibilities, as their independence may be compromised if their funding may be constrained by external action. The majority of NCAs comply with this principle through legally provided self-financing of their activities, including FSC.

Regarding institutional independence, it should be noted that the legislation of most countries provides for such independence, but there are differences regarding aspects such as the mandate and terms of termination of the mandate of senior management and members of collective bodies, the management of conflicts of interest and legal protection to the employees.

Most national bodies, including FSC, publish annual reports, financial statements, disclosure of imposed supervisory measures and are subject to public scrutiny before Parliament or another state body, thereby ensuring transparency and accountability of their activities.

The three reports can contribute to an assessment at national level of whether any legislative or regulatory changes need to be sought to further improve the framework that supports the independence of supervisors' activities, while giving access to the different national approaches.

From the reports, it can be concluded that the legislation in Bulgaria fully meets the requirements for ensuring the independent activity of FSC. In terms of operational autonomy, FSC has powers that allow it to make independent decisions. The necessary legal provisions are established to prevent conflicts of interest, as well as terms of office of the management, including renewal. A democratic selection process is also planned - through the parliament. These provisions ensure independence in decision-making and create the necessary prerequisites for the long-term policy of the authority. The transparency of the activity of FSC is also guaranteed through mechanisms for public disclosure of supervisory and regulatory information. The financial independence of FSC is guaranteed through a planned combined method of financing - through private and public sources.

The reports emphasize that the independence of competent authorities is of paramount importance to support fair, efficient and transparent markets, as well as to promote confidence in financial markets and to protect investors. The independence of the authorities is key to achieving efficient supervision, as well as the consistent application of EU rules in the Member States.

## **Key aspects of ESMA's work**

The main mission of ESMA, continues to be to strengthen investor protection and to promote stable financial markets. ESMA achieves its mission through four activities:

- risk assessment for investors, markets, and financial stability;
- creating common rules for EU financial markets;
- supervisory convergence;
- direct supervision of specific financial entities.

In this regard, in early 2020, ESMA published its strategic priorities for the period 2020-2022. These priorities are set against a changing landscape for ESMA, including shifting the focus of regulation to supervision and harmonised enforcement of EU legislation, as well as the continuing need to develop the EU's capital markets, reinforced by the departure of the EU's largest capital market, the United Kingdom. ESMA's strategic objectives for the period, based on its four main activities, are as follows:

- risk assessment as a starting point for selecting ESMA's priorities;
- greater focus on the risks of small investors - coordination of initiatives of national competent authorities in the field of financial literacy and education, analysis of bad practices and costs related to the purchase of financial products, coordination of “mystery shopping” initiatives in the EU, steadfastness in the use of its powers to suspend the sale of certain financial products;
- ESMA as a data centre for EU securities markets in a global context;
- promoting supervisory convergence by focusing on supervisory outcomes using innovative tools;
- setting supervisory priorities by identifying the most significant risks and collecting data;
- increasing the number of peer reviews in order to achieve greater convergence of supervision in the EU;
- risk-based direct supervision focused on results with long-term impact on central counterparties from third countries, critical benchmarks (from 01.01.2022), benchmarks from third countries (from 01.01.2022), reporting service providers data (from 01.01.2022), securitisation registers, securities financing transactions, transaction registers and credit rating agencies.

More specifically, ESMA's priorities for 2021, grouped by its core activities, are as follows:

- supervisory convergence - promoting convergence in the area of liquidity risks of funds and their use of liquidity management tools in the context of the COVID-19 pandemic; focus on yield and cost of products for retail investors; improving the quality and usability of data in different reporting modes; consistent application of EMIR and in particular the changes introduced by EMIR 2.2; convergence in supervision of the reporting of environmental, social and governance (ESG) factors and the use of ESG data by capital market participants; drawing up a road map for supervisory convergence in the field of sustainable finance;
- risk assessment - integrating the new focus on financial innovation and ESG factors into ESMA's risk analysis; a focus on the data needed to carry out risk-based supervision, given ESMA's new supervisory powers, as well as to improve regulation and converge supervisory practices; monitoring the impact on markets of the COVID-19 pandemic;



- single rulebook - review of MiFID and AIFMD and assessment of the need for changes in the legislative framework to further develop the Union of capital markets, improve the attractiveness of EU capital markets, promote sustainable financing and proportionality; review of technical standards under EMIR 2.2;

- direct supervision - supervision of credit rating agencies, transaction registers, registers under the Securitisation Regulation and the Securities Financing Transactions Regulation (SFTR); in 2021 ESMA focused on the central counterparties from third countries and systematically important central counterparties according to EMIR 2.2. In addition, ESMA prepared for the new supervisory powers in relation to benchmarks and data reporting service providers, as well as continued direct supervision in the areas of credit ratings agencies, trade repositories and securitisation registries.

*ESMA's general supervisory priorities:*

According to the amendments to the ESMA regulation, which became effective in 2020, the Authority is obliged to prepare up to two Union Strategic Supervisory Priorities within one year, which reflect the future changes and trends. National competent authorities are obliged to take these priorities into account when drawing up their work programs and to notify ESMA. ESMA shall discuss the relevant activities of the competent authorities in the coming year and draw conclusions on the implementation of these priorities and possible follow-ups, which may include guidelines, recommendations to the competent authorities and peer reviews in the relevant field.

After ESMA approved and published the two supervisory priorities in November 2020, according to which FSC should undertake supervisory actions in 2021 and which should be coordinated by ESMA, they were implemented by FSC during the reporting year. The two Union Strategic Supervisory Priorities in 2021 are:

1. costs and performance fees, charged by fund managers; and
2. improving the quality of transparency data reported under MiFIR.

Pursuant to the Union Strategic Supervisory Priorities and ESMA's convergence programme, EU supervisory authorities, including FSC, have undertaken common supervisory actions on the following topics:

1. The product governance requirements under MiFID II;
2. Cross-border supply of services under MiFID II;
3. Costs and Fees, charged by fund managers.

### **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 harmonise its application throughout the Member States.

In 2021, task forces were formed in FSC to review a total of 9 ESMA guidelines, as a result of which FSC declared before ESMA compliance with the following Guidelines:

### **Guidelines on Article 25 of Directive 2011/61/EU**

The guidelines are addressed to the national competent authorities.

The objectives of these Guidelines are to establish consistent, efficient, and effective supervisory practices within the European System of Financial Supervision (ESFS) and to ensure the common, uniform, and consistent application of Article 25 of Directive 2011/61/EU. In particular, they relate to the assessment of leverage-related systemic risk and aim to ensure that competent authorities adopt a consistent approach when assessing whether the condition for imposing leverage-related measures are met.

### **Guidelines on stress test scenarios according to the Money Market Funds Regulation (MMF):**

These Guidelines are addressed to competent authorities, money market funds and managers of money market funds as defined in the MMF Regulation.

The purpose of these Guidelines is to ensure common, uniform, and consistent application of the provisions in Article 28 of the MMF Regulation. In particular, and as referred to in Article 28(7) of the MFF Regulation, they shall set common reference parameters for the scenarios used in the stress tests to be included in the stress tests, taking into account factors referred to in Article 28, paragraph 1 of the Regulation. According to Article 28(7) of the MFF Regulation, the guidelines are updated at least once a year, taking into account the latest market trends.

### **Guidelines on marketing communications under the Regulation on cross-border distribution of funds**

These guidelines are addressed to UCITS (undertakings for collective investment in transferable securities) management companies, including any UCITS which has not designated a UCITS management company, Alternative Investment Fund Managers, (AIFM), European Venture Capital Funds (EuVECA) managers and European Social Entrepreneurship Funds (EuSEF) managers.

The purpose of these Guidelines is to specify the application of the requirements for marketing communications set out in Article 4(1) of the Regulation. In particular they establish common principles on the identification as such of marketing communications, the description of risks and rewards of purchasing units or shares of an AIF or units of a UCITS in an equally prominent manner, and the fair, clear and not-misleading character of marketing communications, taking into account on-line aspects of such marketing communications.

### **The final Guidelines on the MiFID II/MiFIR market data obligations**

These guidelines apply to national competent authorities, trading venues, approved publication arrangements (APAs), consolidated tape providers (CTPs) and systematic internalisers (SIs). The scope of addressees expressly excludes NCAs that no longer exercise supervision over the APAs and CTPs from the date following the date on which ESMA began to exercise supervision over the relevant APAs and CTPs.

The guidelines are applied in connection with Art. 13, Art. 15, para. 1 and Art. 18, para. 8 of Regulation (EU) No. 600/2014 of the European Parliament and of the Council of 15.05.2014 on markets in financial instruments and amending Regulation (EU) No. 648/2012 (MIFIR), Art. 64, para. 1 and 2 and Art. 65, para. 1 and 2 of Directive 2014/65/EU of the European Parliament and of the Council of 15.05.2014 on markets in financial instruments and amending Directive

2002/92/EC and Directive 2011/61/EU (MIFID II) and Art. 84 – 89 of Delegated Regulation 2017/565.

The subject of the guidelines is the market data that the trading venues, SIs, APAs and CTPs should disclose for the purposes of the transparency regime before and after the conclusion of the transactions.

The purpose of these guidelines is to establish consistent, efficient, and effective supervisory practices within the European System of Financial Supervision and to guarantee a general, uniform, and consistent application of the provisions of Art. 13, Art. 15, para. 1 and Art. 18, para. 8 of MIFIR and Art. 64, para. 1 and Art. 65, para. 1 and 2 of MIFID II.

### **Guidelines on reporting under Articles 4 and 12 of the Securities Financing Transactions Regulation**

These guidelines apply in relation to the SFT reporting obligation as provided in Art. 4 of Regulation (EU) 2015/2365, the trade repository obligations under Art. 5, para. 7 and Art. 12 of Regulation (EU) 2015/2365, as well as the reporting start date as determined in Art. 33, para. 2 of Regulation (EU) 2015/2365.

These guidelines apply to national competent authorities, counterparties to securities financing transactions as defined in Art. 3, item 2 of Regulation (EU) 2015/2365, as well as the trade repositories as defined Art. 3, item 1 of Regulation (EU) 2015/2365

These guidelines aim to clarify a number of provisions of Regulation (EU) 2015/2365 and to provide practical guidance on the implementation of some of those provisions. Their adoption is expected to contribute to the reduction of costs along the complete reporting chain - the counterparties that report the data, the trade repositories which put in place the procedures to verify the completeness and correctness of data, and the authorities, defined in Art. 1, para. 2 of Regulation (EU) 2015/2365 which use the data to supervise risks to financial stability.

### **Guidelines on disclosure requirements under the Prospectus Regulation**

The guidelines are issued on the basis of Art. 16, § 1 of Regulation (EU) No 1095/2010 of the European Parliament and of the Council of 24.11.2010 establishing a European Supervisory Authority (European Securities and Markets Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/77/EC (ESMA Regulation), in relation to Art. 20, § 12 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 (Prospectus Regulation).

These Guidelines are addressed: to NCAs as defined in the Prospectus Regulation and market participants, including the persons responsible for a prospectus under Article 11, §1 of the Prospectus Regulation. The addressees of the guidelines should make every effort to comply with them in accordance with the provision of Art. 16, § 3 of the ESMA Regulation.

The objectives of these Guidelines are to help market participants to comply with the disclosure requirements set out in the Prospectus Regulation, to establish consistent, efficient, and effective supervisory practices among competent authorities when assessing the completeness, comprehensibility, and consistency of information in prospectuses as well as to ensure the common, uniform, and consistent application of the disclosure requirements set out in the Prospectus Regulation.

### **Guidelines on certain aspects of the MIFID II compliance function requirements**

These guidelines are based on Article 16, para. 1 of the 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 (MIFID II) and Art. 22 of Commission Delegated Regulation (EU) 2017/565 of 25 April 2016 supplementing Directive 2014/65/EU of the European Parliament and of the Council as regards organisational requirements and operating conditions for investment firms and defined terms for the purposes of that Directive (Delegated Regulation (EU) 2017/565).

These guidelines apply to NCA, who should use them in their practice, and to the following financial market participants: a) investment firms when carrying out investment services or investment activities or when selling or advising clients in relation to structured deposits; b) credit institutions when carrying out investment services or investment activities or when selling or advising clients in relation to structured deposits; c) undertakings for collective investment in transferable securities (UCITS) management companies when providing the services referred to in Article 6, para. 3 of 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 UCITS, in accordance with Article 6, para. 6 of that Directive; d) alternative investment fund managers (AIFMs) when providing the services referred to in Article 6, para. 4 of Directive 2011/61/EU of the European Parliament and of the Council of 8 .06.2011 on Alternative Investment Fund Managers and amending Directives 2003/41/EC and 2009/65/EC and Regulations (EC) No 1060/2009 and (EU) No 1095/2010, in accordance with Article 6, para. 4 of that Directive.

The objectives of these guidelines are to establish consistent, efficient, and effective supervisory practices within the European System of Financial Supervision (ESFS) and to ensure the common, uniform, and consistent application of certain aspects of the MiFID II compliance function relating to the requirements referred to in paragraph 2.

### **Guidelines on written agreements between CCP college members**

These guidelines are based on Article 16, para. 1 of Regulation (EU) No. 1095/2010 of the European Parliament and of the Council of 24.11.2010 establishing a European Supervisory Authority (European Securities and Markets Authority), amending Decision No. 716/2009/EC and repeal of Commission Decision 2009/77/EC (ESMA Regulation). They replace the guidelines adopted by ESMA on 4.06.2013 (ESMA/2013/661).

The guidelines are addressed to the national competent authorities (NCAs), which according to Art. 16, par. 3 of the ESMA Regulation are obliged to make every effort to comply with them by including them in the written agreements for the establishment and functioning of the central counterparty college.

These guidelines aim to establish consistent, efficient and effective supervisory practices within the European System of Financial Supervision and to ensure the common, uniform and consistent application of Articles 18 and 19 of Regulation (EU) No 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories (Regulation (EU) No. 648/2012) and Commission Delegated Regulation (EU) No. 876/2013 of 28.05.2013 supplementing Regulation (EU) No 648/2012 of the European Parliament

and of the Council with regard to regulatory technical standards on colleges for central counterparties by introducing a standard written agreement on the establishment and functioning of a college for central counterparties.

### **Guidelines for Outsourcing Cloud Service Providers**

These guidelines apply to 1) national competent authorities; 2) alternative investment fund managers (AIFMs) and depositaries of alternative investment funds (AIFs), 3) undertakings for collective investment in transferable securities (UCITS), management companies (MCs) and depositaries of UCITS, 4) central counterparties (CCPs), 5) trade repositories (TRs), 6) investment firms and credit institutions when carrying out investment services and activities, 7) data reporting services providers; 8) market operators of trading venues; 9) central securities depositories (CSDs), 10) credit rating agencies (CRAs); 11) securitisation repositories (SRs), and 12) administrators of critical benchmarks.

These guidelines aim to help market participants and competent authorities identify, address, and monitor the risks and challenges arising from cloud outsourcing arrangements, from making the decision to outsource, selecting a cloud service provider, monitoring outsourced activities to providing for exit strategies.

### **ESA guidelines**

In 2021, task forces were formed in FSC to review a total of 2 ESAs' guidelines, as a result of which FSC declared before the ESAs compliance with the following Guidelines:

**Final guidelines on cooperation and information exchange of information for the purposes of Directive (EU) 2015/849 between competent authorities exercising supervision over credit and financial institutions - JC 2019 81 (Guidelines for AML/CFT colleges).**

The guidelines aim to establish a framework for cooperation and exchange of information between competent authorities through bilateral engagements or through AML/CFT colleges, while also governing the establishment and functioning of AML/CFT colleges themselves and the financing of terrorism.

The guidelines are addressed to national competent authorities.

**Guidelines on Article 17 and Article 18, paragraph 4 of Directive (EU) 2015/849 on customer due diligence 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 to repeal and replace Guidelines JC/2017/37.**

The purpose of these guidelines is to set out the factors that companies should take into account when assessing the money laundering and terrorist financing (ML/FT) risk associated with their business, business relationship or occasional transaction with an individual or legal entity. (the "customer"). 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.

These guidelines are addressed to credit and financial institutions, as defined in Art. 3, par. 1 and Art. 3, para. 2 of Directive (EU) 2015/849, and the competent authorities responsible for

supervising compliance by these companies with their obligations in relation to AML/CFT measures.

National competent authorities should use these guidelines when assessing the adequacy of company risk assessment and AML/CFT prevention policies and procedures.

### **Peer Reviews**

In 2020, ESMA adopted a two-year plan for peer reviews, which sets out the time ranges of reviews, the follow-up of the performance of past reviews and the mandatory reviews required under European law. The peer review plan is part of ESMA's work programme, which can be found at the following link: [https://www.esma.europa.eu/sites/default/files/library/esma20-95-1273\\_2021\\_annual\\_work\\_programme.pdf](https://www.esma.europa.eu/sites/default/files/library/esma20-95-1273_2021_annual_work_programme.pdf)

#### **• ESMA Peer Review on the Review and Approval of Prospectuses**

This peer review takes into account the objective of the Prospectus Regulation (Regulation (EU) 2017/1129) to ensure convergence of supervisory practices on the examination and approval of prospectuses and to contribute to the building of an EU Capital Markets Union. The regulation also introduces several new types of prospectus, such as the EU growth prospectus and the simplified disclosure regime for secondary issues. These formats aim to facilitate the process of accessing the capital markets and reduce the administrative burden for issuers.

The peer review focuses on achieving high levels of convergence in the supervisory performance of NCAs and aims to promote investor protection, the proper functioning of markets and financial stability. In particular, it assessed how NCAs apply the provisions of the Prospectus Regulation in relation to the review and approval of prospectuses and in particular the application of Articles 35 to 45 of Commission Delegated Regulation No. 2019/980. To this end, the peer review will look at the following five areas of assessment (i) reviewing the prospectuses, considering their completeness, consistency, and clarity; (ii) the approval process, including approval notices; (iii) the implementation of the guidelines on risk factors, (iv) the adequacy of the NCA's resources and (v) the independence of the NCA with respect to prospectus supervision.

#### **• Peer Review for the Supervision of Cross-border Activities of Investment Firms**

The review assesses the NCAs' supervision of the cross-border activities of companies under the freedom to provide services regime, focusing on retail customers and in particular how to achieve a uniform high level of supervisory performance across the EU to promote investor protection and financial stability.

The inspection covers the entire cycle of supervision of cross-border activities by national authorities, as well as the response of host Member States regarding the provision of relevant information. It focuses on the effectiveness of supervision and enforcement and in particular: i) achieving high quality supervisory results, ii) market development and iii) achieving the objectives of MiFID II. The entire cycle of supervision by the NCA is reviewed, namely: permits, passport notifications, ongoing surveillance, and enforcement. The role of the host NCAs regarding the provision of information to the sending authorities and the cooperation between them will also be considered.

According to ESMA's new methodology, this review is carried out on a risk-based basis, with six supervisory authorities selected subject to certain criteria for market size, geographic distribution, relevance, etc. FSC is not among the authorities selected for that review.

- **Peer Review Regarding Brexit**

The UK plays an important role in the EU's single market and the relocation of entities and activities to the union following their decision to withdraw from the EU requires a joint effort to ensure a consistent supervisory approach at European level in order to ensure the protection of investors, the proper functioning of financial markets and the financial stability.

This peer review assesses the extent to which NCAs meet the supervisory expectations set out on the basis of the relevant legal requirements and opinions issued by ESMA on the authorisation of Brexit-related relocations of companies and/or business activities, including the supervision of the implementation of authorisations and the follow-up supervisory inspections in this regard.

Using a risk-based approach, the peer review covers a selection of relevant NCAs that have issued authorisations for the relocation of companies and activities from the UK to the EU. FSC is not among the authorities selected for that review.

- **Follow-up of the implementation of the recommendations of a conducted peer review regarding the guidelines for the application of financial information**

ESMA's report provides an update on the actions taken by national competent authorities (NCAs) to implement the identified recommendations of the 2017 Peer Review on the Financial Information Implementation Guidelines.

ESMA focused on three specific conclusions as a result of the peer review report:

- Adequacy of human and financial resources allocated to the implementation of financial information (Guideline 2);
- Assessing the existing model for selecting an issuer for inspection and whether it considers a combined risk-based approach and sampling and/or rotation (Guideline 5);
- Assessing the scope of the inspections carried out, including their relevance and effectiveness (Guideline 6).

The review was carried out on a risk-based approach and did not cover all NCAs, but only those for which implementation weaknesses were reported. FSC is not among the authorities selected for that review.

The assessment is focused on the implementation of the 2014 Guidelines, taking into account that this report will be published after the 2020 amendment to the Guidelines become effective. To this end, some of the recommendations also refer to the new (or amended) principles applicable from 2022.

### **Key Aspects of EIOPA's Work**

The impact of the pandemic of COVID-19 across the EU continued to influence EIOPA's work in 2021, with a particular focus on monitoring and mitigating risks, supporting economic recovery, and building more resilient insurance and pension sectors, and further strengthening common supervisory culture. Consumer protection continued to be of fundamental importance.

EIOPA worked together with national competent authorities to better monitor and assess possible adverse effects on consumers and the emergence of risks, including those arising from the increased use of digitalisation. EIOPA continues to strive to take effective measures introduction of the adverse effects based on the lessons learned from the COVID-19 pandemic.

Given that the United Kingdom is currently a third country for the European Union, ongoing supervisory dialogues with it are aimed at ensuring financial stability and good supervisory cooperation.

In 2021 EIOPA sought to fulfil its priorities and to support the implementation of the European Commission's action plan for the Capital Markets Union (CMU). EIOPA has focused on promoting initiatives to benefit consumers and long-term savers.

The need for enhanced cooperation between supervisors in relation to cross-border business, compliance with clear transparency requirements also taking into account online sales, promotion of product simplicity and application of product supervision in both insurance and pensions was also an addressed sector to ensure all the benefits that the single market can provide to policyholders, insured persons and investors.

An important element of the CMU is the effective introduction of the Pan-European Personal Pension Product (PEPP) in the European Economic Area, a new product available to European citizens to help them save for the long term. EIOPA will serve as a hub for PEPP registration and cooperation with national competent authorities on supervisory matters.

In light of the European Commission's digital finance package, EIOPA is focusing on developing a comprehensive digital transformation strategy. In addition, the package aims to ensure that all participants in the financial system have the necessary safeguards in place to mitigate cyber-attacks and other risks and to introduce an EU-wide supervisory framework. EIOPA actively contributes to other legislative and non-legislative initiatives and continues to seek further cooperation with other EU bodies, including the ESAs and the European Commission.

EIOPA continues to support EU initiatives in the context of the European Green Deal by reviewing relevant climate and energy legislation. EIOPA supports the implementation of the Sustainable Finance Strategy. This strategy will be an integral part of the EU's response to the financial challenges arising from climate and environmental objectives in the context of economic recovery. EIOPA also focuses in particular on contributing to sustainable finance and seeks to maintain active and leading involvement in global organisations.

EIOPA is also focusing on strengthening its organisational capabilities, in particular through new technologies and solutions in an effort to facilitate collaboration, increase efficiency and drive long-term performance in the “new better normal” after the COVID-19 pandemic.

Priorities for EIOPA for 2021 were mainly:

- support for the implementation of the European Commission's strategy for digital finance;
- SupTech;
- continuous monitoring of market developments and the development of new technologies and business models and identification of supervisory actions;
- cyber resilience of the insurance market;
- cyber insurance market;
- digitalisation.



### *EIOPA' Union Strategic Supervisory Priorities*

From 1 January 2020, specific amendments to the European Supervisory Authorities Regulations were made and they introduced an obligation for EIOPA to define, at least every three years, up to two priorities of Union-wide relevance that reflect future developments and trends. National competent authorities shall take these priorities into account when drawing up their work programmes. The two Union Strategic Supervisory Priorities in 2021 identified by EIOPA are:

1. sustainability of business model;
2. adequate product design, including through strict monitoring of product oversight and governance (POG).

### **EIOPA Guidelines**

#### **Guidelines on the supervisory reporting for Pan-European Personal Pension Product (PEPP)**

The guidelines are issued on the basis of Art. 16 of Regulation (EU) No. 1094/2010 of the Commission and in accordance with Art. 40(2)(a) of Regulation (EU) 2019/1238 EIOPA.

These Guidelines are addressed to national competent authorities of the respective Member States supervising PEPP providers or PEPP distributors or monitoring the implementation of the relevant tasks according to the definition contained in Art. 2, item 18 of Regulation (EU) 2019/1238, as well as the financial institutions that are PEPP providers according to Art. 2, item 15 of the same Regulation.

The subject of the guidelines is the PEPP supervisory report, which is defined as the regular and ad hoc report that enables PEPP providers to report on the development of the PEPP business and allows to monitor the effectiveness of risk-mitigation techniques and the ongoing compliance with Regulation (EU) 2019/1238. The guidelines define the scope of the PEPP supervisory report, which should cover the following areas: relevant aspects affecting PEPP business; the investment strategy used and its results; risk management systems and the effectiveness of risk reduction techniques for PEPPs; the relevant implications of the PEPP provider's prudential framework. The guidelines define the content of the supervisory report in the relevant areas.

#### **Guidelines on Information and Communication Technology Security and Governance**

The guidelines are addressed to the national competent authorities, insurers and reinsurers, and the purpose of the guidelines is to provide guidance on how insurers, respectively reinsurers, should apply the governance requirements set out in Directive 2009/138/EC (Solvency II) and in Delegated Regulation (EU) No. 2015/35 supplementing Solvency II in the context of information and communication technology (ICT) security and management.

The objective of these Guidelines is to:

- a) provide clarification and transparency to market participants on the minimum expected information and cyber security capabilities, i.e. security baseline;
- b) avoid potential regulatory arbitrage;
- c) foster supervisory convergence regarding the expectations and processes applicable in relation to ICT security and governance as a key to proper ICT and security risk management.

## **Peer reviews**

Pursuant to Article 30 of the EIOPA Regulation, the Authority draws up a two-year work plan for peer reviews that reflects EIOPA's priorities according to their long-term work programme. The programme can be found at the following link: [https://www.eiopa.europa.eu/document-library/annual-work-programme/single-programming-document-2021-2023-including-annual-work\\_en?source=search](https://www.eiopa.europa.eu/document-library/annual-work-programme/single-programming-document-2021-2023-including-annual-work_en?source=search)

### **Peer review on outsourcing activities**

Under the Solvency II Directive, undertakings can outsource not only operational tasks, but also, for example, a key function or part of such a function. At the same time Art. 49, para. 2 of the Directive defines when the outsourcing of critical or important operational functions or activities is not permitted.

The goal of this peer review is to assess the implementation of the relevant provisions related to the outsourcing of activities, as well as to exchange experience and information on supervisory activity in order to identify best practices in the European Union. The peer review assesses the approaches of national competent authorities to the outsourcing and supervision of outsourced functions and activities.

The scope of the peer review focused in particular on the following areas:

- Supervisory practices targeting outsourcing requirements in European Economic Area (EEA) countries;
- Ongoing oversight of outsourcing arrangements to ensure that undertakings remain fully accountable when they outsource functions or any (re)insurance activities.

### **Monitoring the implementation of recommendations from peer reviews:**

#### **Follow up report on the peer review on the supervisory practices for the application of proportionality principle in government requirements regarding key functions**

The report assesses how national authorities have implemented the recommended actions following the peer review.

Recommendations were made to FSC to develop appropriate supervisory procedures and criteria for assessing government requirements regarding key functions in a risk-based supervisory framework, including the application of the proportionality principle, as well as assessment of cases of combining key function holders. FSC was also recommended to require all supervised entities to implement procedures to avoid conflicts of interest when building their structure for key functions. In the field of assigning functions to outsiders, it was recommended that FSC should assess the suitability of these persons according to Art. 42 of the Solvency II Directive and the EIOPA Guidelines on the system of governance.

FSC has fulfilled the recommendations given by EIOPA with the adoption in July 2021 of the Ordinance on the requirements for the system of governance of insurers and reinsurers. The ordinance completes the national legal framework for the governance system of insurers and reinsurers in accordance with the Insurance Code (IC) and the guidelines of EIOPA.

More information on EIOPA Peer Reviews can be found at the following link: [https://www.eiopa.europa.eu/browse/supervisory-convergence/peer-reviews\\_en?source=search](https://www.eiopa.europa.eu/browse/supervisory-convergence/peer-reviews_en?source=search)

## **IAIS PRP Questionnaire on ICPs 9 and 10**

The International Association of Insurance Supervisors (IAIS) peer reviews are part of the IAIS assessment strategy designed to assist members in applying the supervisory standards endorsed by the organisation. These reviews provide an assessment to identify the nature and extent of any weaknesses or gaps in the supervisory and regulatory frameworks and provide information on the level of current supervisory capacity and the extent of future supervisory development.

During the year, the IAIS initiated a peer review on the topic of supervisory processes and measures, covering 'Insurance Core Principle 9' (ICP 9) - 'Supervisory Review and Reporting' and ICP 10 - 'Preventive Measures, Corrective Measures and Sanctions'.

The implementation of this review was coordinated for the European Union countries by EIOPA. The European Authority has provided guidelines for the implementation of the review to ensure that EU supervisors will fully reflect the Solvency 2 legal framework (the basic directive, the delegated regulation and the EIOPA guidelines) in their contributions.

More information on the IAIS peer reviews and published reports can be found here: <https://www.iaisweb.org/activities-topics/implementation-assessment/peer-review-process/>

## **Key Aspects of ESRB's Work**

The ESRB activities in 2021 are grouped according to how directly they were linked to the COVID-19 pandemic, which has severely affected economic activity around the world and created an unprecedented combination of liquidity pressure on many businesses and an acceleration of important long-term trends favouring digital businesses models and business practices that do not require physical interaction.

A key focus of the work of the ESRB's bodies and structures in 2021 continues to be devoted to the assessment of risks to financial stability in the EU, with regular input from the ECB monitoring and evaluation work, members' views (in particular through the survey below above), market information, the ESRB Risk Dashboard, and the ESRB Risk Assessment and Policy Priorities. Discussions on risk were further supported by the Country Risk Analysis Report (CRAR), which was prepared biannually.

The ESRB assessment of systemic risk in the EU is based on increasing pressures on solvency in the private sector, which could impact the EU financial system. Two reports were published in relation to corporate insolvency. The first is on "Preparing for a post-pandemic rise in corporate insolvencies" and calls for targeted interventions aimed at ensuring that viable non-financial corporations could restructure their debt, relying on formal or informal insolvency procedures. In the case of unviable firms, policies should seek to facilitate the reallocation of resources to more productive uses. Another ESRB report on the topic is "Prevention and management of a large number of corporate insolvencies", which underlined the need to create the right conditions for successful debt resolution and align the interests of banks and public authorities as part of this process. The report calls for policy to be geared towards rebuilding the economy and fostering adaptation to structural change, rather than trying to preserve or return to the pre-pandemic economy.

In 2021 work continued on the 2020 Recommendation ESRB/2020/08 on monitoring the financial stability implications of debt moratoria, and public guarantee schemes and other

measures of a fiscal nature taken to protect the real economy in response to the COVID-19 pandemic. In February and September 2021, the ESRB published two notes on the topic along with an analysis. The ESRB continued to monitor the overall financial stability implications of fiscal measures, and in particular the cross-border and cross-sectoral implications, as well as the reactions of the financial sector as a whole. This monitoring included measures applied directly through the financial system (moratoria, public guarantees on loans and credit insurance) and measures that could have an impact on the creditworthiness of borrowers, issuers, and investors (loans from public entities, direct grants, tax measures and public equity participation).

Discussions were held on Recommendation ESRB/2020/7 on restriction of distributions during the COVID-19 pandemic, dealing with system-wide restraints on dividend payments, share buybacks and other pay-outs. The recommendation was extended and slightly amended in December 2020, and in September 2021 the ESRB decided that it should lapse, given that the improved economic outlook has reduced the probability of severe scenarios as well as the risk of the crisis from the pandemic COVID-19 spilling over to the financial system. Analytical work was carried out on money market funds (MMFs) and a note was published analysing the systemic vulnerabilities in MMFs and examined the preliminary policy considerations on how to reform MMFs.

The ESRB published a report on the usability of the macroprudential capital buffers that were introduced in response to the global financial crisis in order to increase banking systems' resilience against systemic risks. A second report on macroprudential policy issues arising from the low interest rate environment in the EU financial system and a report assessing the financial stability implications of International Financial Reporting Standard (IFRS) 17, the new accounting standard for insurance contracts, were also published.

In 2021, the ESRB published the EU Non-banking Financial Intermediation Risk Monitor 2021, which is the sixth annual monitoring report on non-banking financial intermediation, an area that has grown in recent years and now accounts for around 40% of financial EU system.

In 2021, the ESRB contributed to the preparation of the adverse scenarios of the EIOPA and ESMA stress tests and the pan-European systemic cyber incident coordination framework.

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 drivers that could affect the EU financial sector.

## **7.2. International Cooperation, Projects, and Initiatives**

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

With regard to the FSC's activity in exchanging information with foreign regulatory and supervisory authorities related to the investigations of natural persons and companies, licensing, and other procedures, during the past year FSC continued to provide active support. Over 50 requests for cooperation received from foreign supervisory authorities were responded to pursuant

to IOSCO, IAIS and ESMA's memoranda of understanding. In turn, FSC has sent over 30 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. After FSC signed the multilateral administrative arrangement on data transfer in April 2019 on the grounds of Art. 46, para. 3 of the GDPR, in 2020, at its annual meeting IOSCO elected a representative of FSC as one of the six members of the Assessment Group for the implementation of the administrative arrangement, thus the Bulgarian participation continues in 2021.

With regard to international activities, in connection with the UK's departure from the EU in 2019, EIOPA and all Member States agreed to sign a multilateral memorandum in the field of insurance with the national competent authorities of the United Kingdom (FCA and the Bank of England), and a similar memorandum was signed in 2020 in the field of securities in partnership with ESMA, in 2021 an agreement was reached also upon a memorandum in the field of clearing and settlement systems. The aim of this multilateral memorandum, signed with the assistance of ESMA, between the EEA countries and the Bank of England is to ensure cooperation and strengthen the effectiveness of the supervision of central counterparties and central depositories.

In 2021, two international agreements were additionally signed on cooperation and information sharing in an AML/CFT supervisory college on the basis of the Final Guidelines on cooperation and exchange of information for the purposes of Directive (EU) 2015/849 between the competent authorities exercising supervision over credit and financial institutions (JC 2019 81), issued by the ESAs. One of the agreements provides for a supervisory college for Citibank Europe PLC, which is organised by the Central Bank of Ireland in its capacity as a lead supervisor. The second agreement regulates the establishment of a supervisory college for Eurobank S.A., the latter being organised by the Central Bank of Greece, which is the lead supervisory authority of this group.

In 2021, FSC also concluded a bilateral memorandum for cooperation purposes under AIFMD with the Astana Financial Services Authority (AFSA) in Kazakhstan. The MoU was concluded as a result of negotiations held in 2020 between ESMA and AFSA and a Decision of ESMA's Board of Supervisors for all EU countries to conclude bilateral MoUs with AFSA. AFSA is a regulatory authority that is also an associate member of IOSCO. AFSA has a special status and jurisdiction over the Astana International Financial Centre (AIFC), which includes the area within the city of Nur-Sultan (Astana), designated by the President of the Republic of Kazakhstan as an area in which a special legal regime applies in the financial sector, established by the Constitutional Act of the Republic of Kazakhstan for AIFC.

During the reporting year, the Board of Supervisors of EIOPA, with the participation of the representative of FSC, adopted a Decision on collaboration between competent authorities in the EEA with a view to exchanging information on supervised entities (EIOPA-BoS-21-234/10.06.2021). According to this Decision, which became effective on 01.07.2021, supervisory authorities should send notifications and exchange information electronically. With Directive (EU) 2019/2177 of the European Parliament and of the Council amending Directive 2009/138/EC on

the taking-up and pursuit of insurance and reinsurance business (Solvency II), section 2A "Notification and forms of cooperation" was supplemented (Art. 152a and 152b), which introduces the notification requirements and the forms of cooperation between the supervisory authorities in relation to insurance companies operating on the basis of the freedom to provide services or the freedom of establishment in another member state. The creation of an electronic platform is also forthcoming, which is being organised by EIOPA.

In 2021, FSC continued to take active part in the process of accession of the Republic of Bulgaria to the Organisation for Economic Cooperation and Development (OECD). At present, accession is defined as an important goal of the foreign policy of the Republic of Bulgaria. FSC exchanges information with the Ministry of Foreign Affairs, in its capacity as the national coordinator for cooperation with the OECD.

FSC took part in meetings of the permanent Inter-agency Coordination Mechanism (ICM), which was created with a view to improving coordination and speeding up actions on acceding to the OECD. Representatives of the Bulgarian supervisory authority also participated in meetings of the Interdepartmental Expert Commission at the ICM.

Representatives of FSC are members of several interdepartmental working groups that are involved in specific stages of the accession process. The Commission enhances its cooperation and regularly submits insurance and pension statistics to the OECD, and actively participates in the meetings and written procedures of the in which Bulgaria currently has a „guest“ status. Representatives of the Bulgarian supervisory authority also take part in the work of the Financial Markets Committee.

### **7.3. Cooperation with Institutions in Bulgaria**

FSC maintains and deepens its cooperation with state structures, branch associations of FSC supervised entities 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), as well as numerous state bodies and institutions – the National Statistical Institute (NSI), 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) and the judiciary authorities (Prosecutor's Office, Courts, Investigation Service), structures to the Ministry of Interior, etc.

Employees of the Insurance Supervision Division have taken part in meetings of the subgroup of Working Group 26 Financial Services to prepare proposals for regulatory amendments in order to introduce measures for the implementation of Regulation (EU) 2019/1238 of the European Parliament and of Council of 20.06.2019 regarding a pan-European personal pension product (PEPP Regulation), created by order of the Minister of Finance. The employees have taken part in the preparation of the analysis regarding the need for amendments to the national legislation in connection with ensuring conditions for the implementation of Regulation (EU) 2019/1238 on

a pan-European personal pension product, as well as in the development of draft norms regarding coercive administrative measures and the administrative penal authority in the Criminal Code.

During the reporting period, the participants from the Insurance Supervision Division in the "Non-banking financial sector" working group at the Coordination Council for Preparation of the Republic of Bulgaria for Euro Area Membership took part in discussions regarding the addition, according to the powers and competences of the Financial Supervision Commission, of a working draft of the National Plan on the introduction of the euro in the Republic of Bulgaria, prepared jointly by the Ministry of Finance and the Bulgarian National Bank.

In view of the upcoming IFRS 17 – Insurance contracts becoming effective, a joint working group has been established, including employees from the Insurance Supervision Division and representatives of the Association of Bulgarian Insurers (ABI), which aims to prepare a proposal to amend and supplement the Ordinance No. 53 of 23.12.2016. The work of the specified working group continues in 2022. During the preparation work for the international standard becoming effective, meetings were held and correspondence was carried out with EIOPA, the Ministry of Finance, BNB and other European insurance supervisory authorities.

In connection with the upcoming introduction of new reporting by the BNB for insurance companies in accordance with Regulation (EU) No. 1374/2014 of the ECB of 28.11.2014 on statistical reporting requirements for insurance corporations (ECB/2014/50) tripartite meetings were held between representatives of the BNB, ABI and FSC, and employees from the Insurance Supervision Division analysed the regulation with a view to the possibility of using the supervisory reporting of insurers in FSC and providing the information for statistical purposes, as well as a study of the practice among others European supervisory authorities.

During the reporting period, meetings were held with the Bulgarian Guarantee Fund (GF) and the National Bureau of Bulgarian Motor Insurers (NBBMI) to take the necessary actions to implement the decision in an arbitration case filed at the request of the GF in connection with the applicability of the Convention of 1995 for the insolvency of an insurer offering third-party liability insurance carrying on business in the single market - Recourse Convention between GFs in the context of the insolvency of Olympic Insurance Company (Cyprus). During the meetings, information was also provided regarding the progress of negotiations on a draft memorandum of understanding with the Guarantee Fund of the Republic of Cyprus and the liquidators of the Olympic Insurance Company in connection with a procedure for the recovery of payments made by the Bulgarian GF as a result of the bankruptcy of the Cypriot Olympic Insurance Company.

Representatives of the Insurance Supervision Division also took part in a meeting with representatives of the Commission for Public Oversight of Registered Auditors (CPORA) in order to discuss the criteria for coordinating the selection of the audit firms (the Criteria) that audit an insurer, reinsurer, insurance holding, financial holding with mixed activity, pension insurance company and the pension funds managed by it based in the Republic of Bulgaria, adopted by decision under protocol No. 27 of 04.07.2017, amended and supplemented by decision under protocol No. 81 of 02.11. 2021 of the Financial Supervision Commission. By order of the Chairman of FSC, an interdepartmental working group was created to update the Criteria, in which representatives of the CPORA participate.

The Commission actively participates in the legislative process of consideration and adoption of the proposals for amendments and additions to the Social Insurance Code, related to the revision of the regulatory requirements regarding payments from universal pension funds, by providing written opinions during the reporting period, initiating discussions with the members of BASPSC, participates in the consideration of bills in the relevant parliamentary committees. In connection with the adopted changes in the legal framework, as indicated by the legislative body, until 30.06.2021 in accordance with § 108 of the Transitional and Final Provisions of the Act to Amend and Supplement the SIC (SG, No. 19 of 05.03.2021, in the spirit of dialogue and active communication with the interested parties (BASPSC, MF, MLSP, NRA, CPORA, ICPA, BAD), including by holding regular meetings in a discussion format, the Commission adopted changes in the by-laws framework. In connection with the need to update by-laws (Ordinance on the Boards of Trustees of the Funds for Supplementary Mandatory Pension Insurance and on the Advisory Boards of the Funds for Supplementary Voluntary Pension Insurance, adopted by Resolution No. 29 of the Council of Ministers of 18.02.2005, and Ordinance No. 36 of 22.01.2004 for the custodian banks under the Social Insurance Code adopted by the Bulgarian National Bank) notifications have been sent to the relevant competent authorities (Ministry of Labour and Social Policy and the Bulgarian National Bank), in accordance with the requirement of Art. 155, para. 4, of the SIC a proposal for changes was sent to the Ministry of Labour and Social Policy. In order to discuss and agree on proposals sent by the Financial Supervisory Service for amendments and additions to the Ordinance on the trusteeship and advisory boards of the funds for supplementary pension insurance and the funds for making payments (Prom, SG No. 85 of 12.10.2021) in 2021, an employee from the Regulatory Regimes of Insurance Supervision Directorate participated in a meeting of the Commission for Insurance Relations of the National Council for Tripartite Cooperation (NCTC).

In connection with initiated legislative changes, directly or indirectly affecting the activities of pension insurance companies and the funds managed by them, within the framework of the reconciliation and public consultation procedures, the Commission has promptly provided opinions, comments and/or proposals, including on a draft Covered Bonds Act, which proposed changes to the Social Insurance Code related to investing pension fund funds in these financial instruments; bill amending the Law on the Public Offering of Securities, which introduces measures on the implementation of Regulation (EU) 2017/1129, the Markets of Financial Instruments Act, the Collective Investment Schemes and Other Undertakings for Collective Investments Act, the draft International Restrictive Measures Act, etc.

In connection with maintaining the good inter-institutional cooperation, as well as for the performance of timely and preventive supervisory functions, representatives of the Commission participated in a number of working meetings held with representatives of supervised persons and other bodies and organisations such as:

- review and update on a joint project with ICPA regarding agreed procedures for fulfilling the requirements of Art. 187, para. 3, item 3 of SIC;
- meetings in the Ministry of Finance, on the topic of "Stablecoins" - the EC's intentions for concerted and harmonised actions at the EU level for the regulation of crypto-assets and the



preparation of a legislative proposal as part of the FINTECH action plan and on the topic of "New priorities of the second phase of the Capital Markets Union;"

- organised by the Higher School of Insurance and Finance under the patronage of the Chairman of the Commission, an international conference on the topic "PEPP - Regulation and technical standards for market implementation", at which experts from the Insurance Supervision Division participated as panellists, providing information, and answering questions, set by conference participants, etc.

During the reporting year, the participation of representatives from the Regulatory Regime of Social Insurance Supervision Directorate in the permanent working groups of the Council for European Affairs continued, in particular in Working Group 26 "Financial Services" and Working Group 27 "Accounting Policy and Independent Financial Audit", subgroup "Accounting Policy", with the leading institution MoF, Working Group 2 "Free Movement of People" and Working Group 13 "Social Policy and Employment" at the MLSP.

Regulation (EU) 2019/1238 on a pan-European personal pension product (PEPP) regulates the creation and registration of PEPPs, the distribution of these products in all EU member states, as well as the supervision of these activities. In connection with this, in the reporting year 2021, representatives from the Regulatory Regimes of Social Insurance Supervision Directorate took an active part in the formed interdepartmental Working Group at the MoF for the preparation of the necessary amendments to the national legislation to ensure the implementation of the regulation. The approaches to enable PEPP to be offered by pension insurance companies managing funds for supplementary voluntary pension insurance under occupational schemes were analysed in detail, as well as the applicable conditions in the accumulation phase and the pay-out phase. Based on the analysis and discussions held in the working group, which also included representatives of professional organisations in the pension insurance and insurance sectors, the necessary amendments to the SIC were prepared with a view to regulating a new type of voluntary pension fund (voluntary pension fund for a pan-European pension product) and the separation into it to sub-funds with a different investment and risk profile. In this way, PEPP-insured persons are given the opportunity to choose different investment options and to apply a risk reduction technique related to the distribution of investments according to the life cycle of consumers. Assistance was also provided regarding the development of the system of insurance rights and the necessary regulations were prepared, governing the application of supervisory measures in case of violations in the activities of pension insurance companies offering PEPP.

In the reporting year 2021, representatives from the Regulatory Regimes of Social Insurance Supervision Directorate worked together with the Ministry of Finance within the framework of the Non-banking Financial Sector working group at the Coordination Council for Preparation of the Republic of Bulgaria for Euro Area Membership in the discussion and agreement of the National Implementation Plan of the euro in the Republic of Bulgaria and the preparation of an action plan of FSC. The National Plan for the introduction of the euro in the Republic of Bulgaria describes the principles, the institutional and legal and regulatory framework for the adoption of the euro, as well as the main activities for the successful introduction of the euro from 01.01.2024. In the Action Plan of FSC to the National Plan for introduction of the euro in the Republic of Bulgaria, specific legal, administrative, and organisational measures that the

non-banking financial sector needs to take, and deadlines for their implementation, according to the target date of the introduction of the euro, are listed.

In line with interdepartmental cooperation, a working group was established by order of the chairman of FSC with representatives from the Regulatory Regimes of Social Insurance Supervision Directorate, the Insurance Supervision Division, the Legal Directorate and the Commission for Public Oversight of Registered Auditors (CPORA). During the reporting year there were meetings with the participants with regard to analysing the practice for the previous 5 years on applying the Criteria for coordinating the selection of the audit firms that audit an insurer, reinsurer, insurance holding, financial holding with mixed activity, pension insurance company and the pension funds managed by it based in the Republic of Bulgaria, adopted by decision under protocol No. 27 of 04.07.2017, amended and supplemented by decision under protocol No. 81 of 02.11. 2021 of the Financial Supervision Commission (the Criteria) and initiation changes in the Criteria with necessary. The meetings discussed the CPORA's proposals for making changes to the Criteria regarding: updating the requirements for certificates held by the experts included in the audit teams; limiting for a certain period of time the requirement of connection with the audited enterprises; unification of the requirements for the audit companies that will perform a joint audit. The subject of discussion in the working group were also the practical problems related to the implementation of the administrative procedures for coordinating the selection of audit firms, as well as in the implementation of ongoing supervision regarding compliance with the Criteria.

A representative of the directorate Regulatory Regimes of Pension Insurance Supervision 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 authorised representative of each NRA, FSC and the BASPSC.

## **8. Institutional Development of FSC**

### **8.1. New points in FSC's management and structure**

Within the framework of the reporting year 2021, two significant changes were made in the organisational structure of the Financial Supervision Commission, concerning the separation of new departments and revision of the functions of the already existing units in the composition of the two directorates of the Insurance Supervision Division and the Supervision of Investment Activity Division.

As of 04.01.2021, as a result of an analysis and the need to make changes to increase the effectiveness of regulations, as well as to achieve optimization of the supervision of insurance markets, creating conditions for meeting the challenges in the field of insurance supervision, including implementation of effective risk-based supervision of the insurance sector, a structural change was made in the composition of the directorates Regulatory Regimes of Insurance Supervision and Insurance Supervision, in accordance with the powers and functions of the two directorates, regulated in art. 53 and Art. 57 of RSAFSCIA.

The optimal use of the available resource potential of the Insurance Supervision Division and the attraction of highly qualified experts in the field of law and finance to contribute to increasing the effectiveness of the division's activity led to an increase in the ability of the division's directorates to respond to the increased volume of work and the high expectations for quality and results-oriented performance. The implementation of the structural change and the internal movement of employees within the two directorates was tailored to the competences of the workers, their strengths, and professional qualities on the one hand, and to the specifics of the work of the units on the other.

- In the Regulatory regimes of insurance supervision Directorate a new department - "Prudential Monitoring and Market Analyses" was established;
- In the Insurance Supervision Directorate, the functions of the departments "Insurers and Insurance Groups and Risk Assessment" and "Firm Inspections" were divided and supplemented in the newly created departments "Off-Site Supervision of Insurers and Insurance Groups," "On-Site Inspections" and "Market behaviour."

As of 01.03.2021, a structural change was also made in the composition of the Investment Activity Supervision Directorate, resulting in the creation of a new department - "Specialized supervision of AML/CFT preventive measures." Before its establishment as a separate unit within the directorate, the activity of carrying out specialized supervision in relation to the implementation of AML/CFT preventive measures was carried out by employees in the Supervision of Investment Firms, Markets in Financial Instruments and Investigation of Market Abuse Department of the Investment Activity Supervision Directorate.

Through the creation of this department, monitoring of the AML/CFT prevention can cover all persons supervised by the Supervision of Investment Activity Directorate. In this way, objectivity and impartiality are ensured in the investigations, as well as concentration and profiling of the activities carried out by the experts in the supervisory functions of FSC.

## **8.2. Human resources management**

Financial Supervision Commission's structure and functions are defined by 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 2021 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, whose functions are combined respectively by a Chief Inspector in the Inspectorate and an Adviser in the Office of the Chairperson.

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 2021, 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 – 21 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 following units are also directly subordinated to FSC Chairperson: Office of the Chairperson - 5 full-time positions, Internal Audit Unit - 4 full-time positions, Inspectorate - 3 full-time positions and the positions of Secretary General, Information Security Officer, and Financial Controller.

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 – 23 permanent posts;
- Supervision of Investment Activity Directorate – 58 permanent posts;
- Regulatory Regimes of Insurance Supervision Directorate – 16 permanent posts;
- Insurance Supervision Directorate – 30 permanent posts;
- Regulatory Regimes of Social Insurance Supervision Directorate – eleven permanent posts;
- Social Insurance Supervision Directorate – 16 permanent posts;
- Analyses, Complaints and Resolution Directorate – 10 permanent posts.

To achieve the strategic objectives, the Commission had as its priority the improvement of conditions and provision of favourable working and social environment to attract suitable recruits, as well as to keep qualified employees and further their professional development.

To successfully realize its functions and goals, FSC, through the effective management of human resources, aims to provide capable, responsible, motivated employees with the necessary competence and potential. This is done with the consistent policy in the field of human resources management, aimed at ensuring and developing the expert potential of FSC employees, improving their professional qualifications, ensuring consistency in leadership and continuity, building, and maintaining a working environment that enhances trust, motivation and satisfaction of employees, formation of internal institutional affiliation.

As a result of the actions taken to attract experts with the necessary professional qualities and qualifications, the number of staff employed in the Commission at the end of 2021 is 234, and the employment rate amounts to 92% of the total, with a positive growth of 1 % on this indicator compared to the end of 2020.

The current Procedure for selection of candidates for work in 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 labour relations. The circle of publicity in recruiting candidates who have a specialized interest in field of supervision exercised by the regulator and have the knowledge and competencies required by FSC has been expanded, the higher publicity aims to attract experts to key positions with high qualifications and experience, with the help of alternative opportunities for selection.

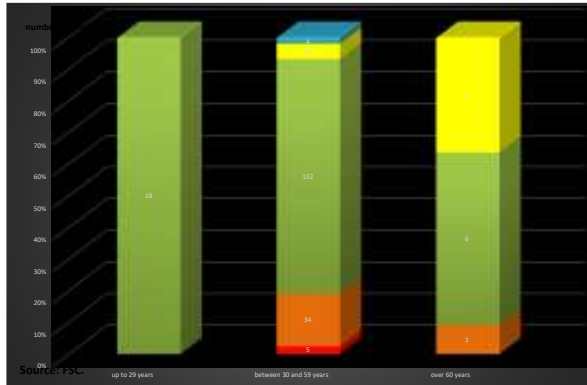
In 2021, 24 new employees were appointed, according to the Procedure for recruitment, selection, and appointment of employees in the Financial Supervision Commission. The largest part of the newly hired employees was appointed to the position of chief expert – 13 or 54% of all new hires. Respectively 5 and 3 new hirer were assigned to the next expert positions in the hierarchy – senior expert and junior expert, corresponding to 21% and 13% of those who joined FSC team during the year, respectively. The remaining three new employees during the reporting period have been appointed to the positions of director of a directorate (the only management position to which a new employee has been appointed), actuary and chief legal advisor, and each of these positions constitutes 4% of all employees appointed for 2021.

There were 24 employees who left in 2021, as many as the new hires during the year. According to this indicator, there is a drop of 23% in the growth rate in terms of the number of leavers compared to the previous year 2020.

The age distribution among employees is considered in three separate groups - employees up to 29 years old inclusive,

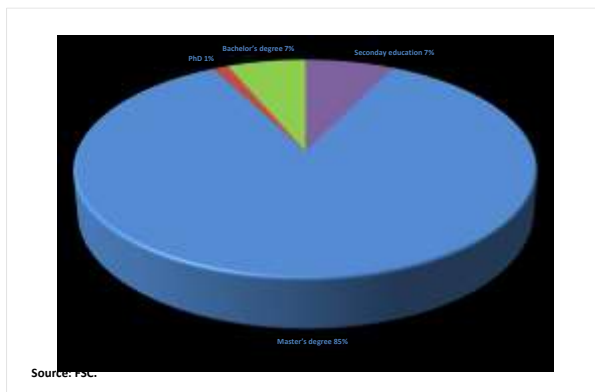
between 30 and 59 years old inclusive and those over 60 years old. In graph 1, a comparison is made, both by age and by job category. Employees under the age of 29 make up 8% of the employees of FSC. The majority of employees fall into the age group from 30 to 59 years (88%). There are 11 (5%) employees working in FSC over the age of 60.

**Graph 16. Distribution of appointed employees by age and position as at the end of 2021**

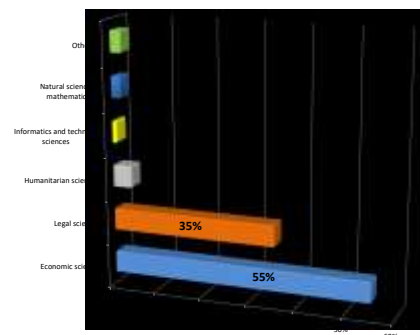


The educational and professional-qualification structure of the persons employed in FSC meets the real needs necessary for the fulfilment of the goals and tasks set before the Commission. Employees with higher education dominate, representing 93% of those employed in 2021, including those with an educational and scientific degree "Doctor" - three people (1), an educational-qualification degree "Master" - 199 employees (85%), and 15 employees (6%) have a bachelor's degree. The share of employees with secondary education (including secondary-special education) is 7%. The distribution of FSC employees by areas of higher education is as follows: the highest percentage (55%) are employees with higher education in the field of economic sciences, 35% - in the field of legal sciences, 4% - humanities, 2% - natural sciences and mathematics, and the rest have education in other fields.

**Graph 17. Distribution of employees by educational degree in 2021.**



**Graph 18. Distribution of employees by areas of higher education in 2021**



Source: FSC.

FSC's effective regulatory and supervisory activity, maintaining the high level of professional knowledge and skills of employees, related to the realisation of FSC's priorities, and improving the employees' personal, motivation and engagement are ensured through their participation in current and important to FSC specialized trainings.

In 2021, a number of trainings were held by Bulgarian and foreign organisations, the main areas of the trainings were in the field of solvency, sustainable finance, investment management, violations of EU law, insurance reporting, risk management, building a system for prevention of corruption and fraud, internal audit, awarding of electronic public procurement, rule-making and law enforcement, public policies, digital competence and electronic governance, personal effectiveness, personal development, foreign language training, as well as familiarization with the changes in various regulatory acts concerning the activities of the Commission and others.

In 2021, specialized training was held for the employees of the Insurance Supervision Division on the topic of “International Financial Reporting Standard 17 - Insurance Contracts”, which will become effective at the beginning of 2023. A total of 44 employees from the two directorates were trained in the Insurance Supervision Division. The training was conducted by PricewaterhouseCoopers Bulgaria EOOD.

In the period November-December 2021, trainings were held according to a project of the National Assembly of the Republic of Bulgaria, entitled “Increasing the efficiency in the introduction of the directives and measures for the implementation of the acts of the European Union in Bulgarian legislation”, activity “Training of the employees of the administration of the National Assembly and the central administration to increase the competence and expertise of the administration involved in the process of introducing the directives and measures for the implementation of the EU acts in the Bulgarian legislation”. 12 employees participated in the training.

At the invitation of the Diplomatic Institute at the Ministry of Foreign Affairs, a terminological English course on European and international issues was launched in November. The training is scheduled to last until March 2022 and is carried out under project No. BG05SFOP001-2.015-0002 entitled “Conducting specialized training for employees of the state administration”, financed under the Operational Programme “Good Governance”, co-financed by the European Union through the European Social Fund. The language course is conducted by the Britannica Education Centre. 9 employees of the Commission participated in the training.

In connection with the adopted amendments to the Administrative Violations and Penalties Act, effective from 23.12.2021, in the period November-December 2021, training was conducted for the expert staff engaged in drawing up acts for establishing administrative violations, preparing of draft penal warrants and resolutions and their appeal. 114 employees participated in the training.

A webinar was held in 2021 on “Success and Balance in Times of Crisis”. The event was created and organised for FSC team, with the focus of the discussion being on contingencies, success factors, the importance of balance and flexibility and thinking errors, management of the internal environment, which also reflects in the perception of the external environment.

In order to increase and maintain the necessary theoretical training, as well as the acquisition of new knowledge and skills by employees, in addition to the mentioned training events, during the reporting period, other trainings were held, distributed as follows:

- trainings for professional and personal development of employees conducted by the Institute for Public Administration on 63 topics, 244 employees took part, with one employee participating in more than one training;

- trainings to increase the professional qualification of employees, organised by other training institutions in Bulgaria or courses and seminars conducted by experts with solid knowledge and expertise - 26 topics, with the participation of 77 employees, one employee participated in more than one topic on a training;

- during the period, a number of trainings were held organised by foreign organisations such as EIOPA, ESMA, EBA, JVI, University at Albany, New York, as well as by the European Actuarial Association. The conducted trainings covered 18 topics, and the participating employees were 74, and again one employee participated in more than one training topic;

- in connection with compliance with the provisions of the Regulations for the Implementation of the Protection of Classified Information Act, initial training on the protection of classified information was conducted for 33 of the newly appointed employees of FSC;

- Most of the trainings in 2021 took place online, with few exceptions - in person.

In accordance with the approved Procedure for planning, organizing, and implementing the training of employees in the Financial Supervision Commission, contracts were concluded for the improvement of qualifications with two employees - one employee is included in the educational program of the Bulgarian Actuarial Society and one in the educational program of the CFA Institute - CFA Program Level I.

The employees of the Commission are motivated to perform their official duties successfully, and the achieved results of their activities give them the opportunity for career development. The occupation of a higher position in the institution is carried out after an objective and fair assessment of the potential for their development, in compliance with the principle of equality, and in 2021 16 employees were promoted to a higher position, on the initiative of the direct managers, and another 16 received an increase in the base remuneration in accordance with the hypotheses regulated in the Internal Rules for the salary (after the expiration of the trial period, increased workload and others). Five employees were reassigned to another administrative unit within the administration.

In 2021, 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.

During the reporting period, six interns had the opportunity to become closely acquainted with the nature of the work of the Financial Supervision Commission, as well as with specific activities performed by the experts in the directorates where the students conducted their internship.

<b>Directorate</b>	<b>Number of interns</b>
Regulatory Regimes of Investment Activity	1
Supervision of Investment Activity	2
Insurance Supervision	2
International Cooperation	1



### **8.3. Development of information technologies for the needs of supervision**

In 2021, in order to achieve the set strategic goals, by building and maintaining a modern information infrastructure in the field of information technologies, the processes of building a unified information system (UIS) continued.

During the period, a procedure was carried out according to the Public Procurement Act and a committee of experts was appointed for the selection of an external contractor to evaluate the tenders submitted for public procurement with the subject “Building a unified information system for the needs of the Financial Supervision Commission”, and with the decision of the commission a contract was awarded.

The unified information system (UIS) is implemented as a centralised web-based system that automates and integrates into one the main activities and business processes serving the activity and supervisory powers of FSC, provides a complex of electronic services for data submission, as well as notifications for validations, verification, processing, status and correctness of data.

The UIS provides integration with the information systems of external organisations such as the NRA, GRAO, the Commercial Register, etc., as well as integration with the registers of the European supervisory authorities ESMA, EIOPA, etc.

The UIC provides an opportunity for a supervised entity and a non-supervised entity to submit the information they require via secure electronic means, to track the submitted information, to receive feedback, to have access to a history of actions and historical information submitted in a given past a moment.

The UIS will achieve optimization and reengineering of business processes, implementation of risk-based supervision, as well as ensuring a single place of truth and completeness of information for supervised entities by unifying access, maintenance, and storage in one system, improving information protection and implementing security management tools into the system architecture.

In 2021, a procedure with 3 lots was conducted under the PPA and contracts were awarded for the purchase of hardware, namely “Supply of notebook computers, monitors, accessories, communication equipment and disk array for data storage for the needs of the Financial Supervision Commission in three lots”.

The purpose of the procurement is both to provide reliable and functional equipment for the experts of FSC, as well as a reliable and well-protected wireless network, meeting the necessary security standards and providing a disk array with high operating speed and the possibility of expansion, which will cover the needs of the UIS under construction.

To ensure that the information systems used are up to date, in accordance with the amendments to the legislation and the work processes of FSC, during the period an upgrade of the "eKFN-Insurance Supervision" information system was carried out. An analysis of the system was carried out, as a result of which actions were taken to ensure the possibility of receiving and processing reporting information for the lifelong pension payment funds and the deferred payment funds in accordance with the Social Insurance Code and the implementation of the supervisory functions of the Financial Supervision Commission.

The source code and database of the information system were modified and upgraded, and the implemented changes were implemented in the productive environment of FSC.

In fulfilment of the obligations of FSC to the European Securities and Markets Authority (ESMA) to automate the process of receiving data from the supervised entities and sending them to the European regulator, a technical specification was prepared for the construction of an information system to ensure the implementation of Art. 9 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 (CSDR).

After conducting a public procurement, a contractor was selected and the execution of a contract for the development of the software started.

In 2021, a technical specification was prepared for the construction of an information system to ensure the fulfilment of the obligations to report the information under Art. 110 of Commission Delegated Regulation (EU) No. 231/2013 of 19 December 2012 supplementing Directive 2011/61/EU of the European Parliament and of the Council with regard to exemptions, general operating conditions, depositories, leverage, transparency, and supervision. After a public procurement, a contractor was selected and a software development contract was signed according to the technical specification.

A technical specification was also prepared for the construction of an information system that would enable the XML messages generated in the Trade Repositories Access System (TRACE) to be converted into a readable format.

During the reporting period, a new module was successfully built and implemented to 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 15.05.2014 on markets in financial instruments and amending Regulation No. 648/2012” fulfilling the requirements of the European Securities and Markets Authority in relation to third parties paragraph of Art. 26 (1) of the Markets in Financial Instruments Regulation (MiFIR).

Through this module, competent authorities shall provide ESMA upon request with any information that is reported in accordance with this Article. In order to carry out ESMA's supervisory functions over DRSPs (Data Reporting Service Providers), national supervisory authorities must forward to ESMA all transaction report files received from approved reporting mechanisms (ARMs), investment firms and trading venues.

In 2021, a project to upgrade the Insurance Supervision Division information system with data submission and management functionality was launched in connection with a requirement for reporting by investment firms pursuant to Art. 54 of Regulation (EU) 2019/2033 of the European Parliament and of the Council of 27.11.2019 on prudential requirements for investment firms.

Nagios Log Server and Nagios XI were installed and configured to increase the level of operability and continuity of IT services in FSC. By means of this specialized software, automated monitoring of the behaviour, workload and availability of FSC servers and the services supported by them is carried out, notifications are received and log records are stored in a backup copy, in case of an accidental event.

To ensure redundancy of data and systems, a Synccovery platform was installed and configured, performing automatic transfer of files and archives between the file and application/database servers of FSC, in order to ensure reliable free space management.

To increase the level of information security when FSC employees work online and receive unwanted messages, the web filtering policies of firewalls were reconfigured, providing more flexible management of different types of restrictions to dangerous or unwanted Internet content.

To ensure continuity, reliability, operability and relevance of the information systems and computer configurations used by FSC employees, a process of replacing and improving the characteristics of workstations was started.

In order to improve communication between FSC employees, supervised entities and external partners, a Polycom video conferencing system was implemented, providing a reliable and secure means of communication for conducting work meetings, video meetings and trainings.

In 2021, FSC continued participating in the working groups of European Securities and Markets Authority and the European Insurance and Occupational Pensions Authority on the implementation of IT solutions and their application for supervisory purposes at the local level continued.

#### **8.4. Report on the implementation of the budget of the Financial Supervision Commission for 2021 under the budget program "Improvement of the regulation and supervision of the non-banking financial sector"**

The Financial Supervision Commission (FSC) is a legal entity supported by the budget, according to Art. 2, para. 3 of the Financial Supervision Commission Act. The President of the Commission is the primary authorizing officer. The budget of the Commission is compiled, implemented, and reported in accordance with the Public Finance Act. Revenues and expenses are reported according to the Unified Budget Classification (UBC) for 2021.

FSC organises its reporting in three separate reporting groups, with reports prepared for 2021:

- Budgetary implementation report of FSC;
- Report on the accounts for funds from the European Union, administered by the National Fund to the MF;
- Report on operations and balances on accounts for foreign funds.

The statement on cash amounts in FSC's budget for 2021 reported a total **income** in the amount of **BGN 21,220,355**. The annual plan is implemented at 99.25%.

The revenue part of the budget receives non-tax revenues from fees, according to Art. 27, para. 1 of the Financial Supervision Commission Act (FSCA), fines, property sanctions and penalty interest. The proceeds from imposed fines and property sanctions go to the budget of FSC, but according to Art. 28, para. 4 of FSCA are reported as a contribution to the Central Budget.

The structure of revenues for 2021 was as follows:

- **revenues from state fees - BGN 18,414,412**, according to the Tariff for fees collected by FSC, Annex to Art. 27, para. 1 of FSCA. Of the total amount of the reported fees by bank or cash, FSC received BGN 18,408,235, and BGN 6,177 were reflected on the basis of received inquiries and orders for amounts collected by the NRA. The largest relative share (94.65%) in the reported fees has the annual fee for general financial supervision - BGN 17,429,164. The received fees for issuing licences and permits for carrying out activities and other permits and approvals amount to BGN 985,248;

- **revenue from fines, pecuniary sanctions, and interest - BGN 3,308,283**, of which BGN 2,694,600 are fines and pecuniary sanctions under penal warrants that have entered into force, BGN 67,451 are interest for late payment of the annual fees for general financial supervision and penal decrees not paid within the statutory term. Amounts collected by the National Revenue Agency are also reflected on the basis of received inquiries and orders for BGN 546,232;

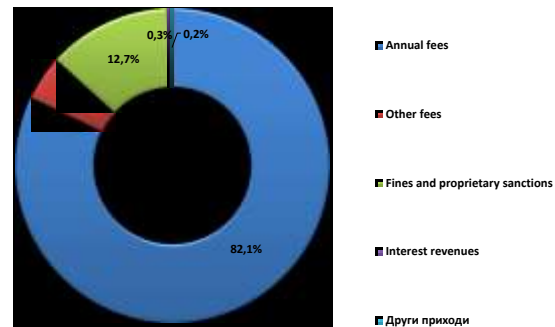
- **other non-tax revenues (- BGN 504,090)**. - the paragraph reflects a negative exchange rate difference (BGN -55), amounts received from reimbursed legal fees + BGN 48,374 and the public receivables of FSC collected by the NRA (BGN - 552,409),

which according to instructions given by the Ministry of Finance, are also reflected with a minus sign in the cash report

- **rental income for the use of a departmental apartment - BNG 1,804**

- **paid tax on business income - (-)**  
**BGN 54**

**Graph 19. Structure of FSC revenues in 2021**



Source: FSC.

The statement on cash amounts in FSC's budget for 2021 reported total **expenses** in the amount of **BGN 19,074,766**, distributed as follows:

- **staff costs – BGN 13,415,396**, 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 organisations 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 Labour Code 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 2021 amount to BGN 11,425,368

- **current operating costs - 2,156,363** The amount is spent for rent, security, cleaning, and maintenance of the administrative building of FSC, electricity, telecommunications and postal services, maintenance of software products, insurance, stationery, consumables and other supplies and services. Funds for specialized trainings for FSC employees and for business trips in the country and abroad have also been reported, and due to the anti-epidemic measures taken, the costs for business trips have been greatly reduced. The largest relative share in the maintenance costs have the costs for rent of the administrative building of FSC;

- **expenses for taxes and fees – BGN 42,874.** for payment of state fees for promulgation of FSC decisions in the State Gazette, tax on official cars and other municipal and state taxes and fees;

- **costs of membership fee and participation in non-profit organisations and activities - BGN 2,817,104.** The cost is for membership fees of FSC in the European bodies: EIOPA - European Insurance and Occupational Pensions Authority, ESMA - European Securities and Markets Authority and for annual membership fees in international organisations: IOSCO - International Organisation of Securities Commissions, IAIS - International Association of Insurance Supervisors and IOPS - International Organisation of Pension Supervisors;

- **capital expenses – BGN 643,029**, of which BGN 2,786 for major renovations, BGN 297,706 were for acquisition of computers and hardware, and BGN 342,537 were for acquisition of licences and software products.

The spending of the funds under budget paragraphs is within the approved budget for the year, is in compliance with the revenues from fees and represents 98.85% of the annual plan. The realization of the expenses is carried out under a regime of strict financial control and is in accordance with the goals and priorities of FSC.

For the period 01.01.2021 - 31.12.2021, BGN 392,012 current and BGN 640,243 capital expenses were reported in the field of electronic management and the information and communication technologies used. The expenses are mainly for software maintenance, maintenance and repair of hardware, subscription for information systems and acquisition of computer equipment and of software products and licences.

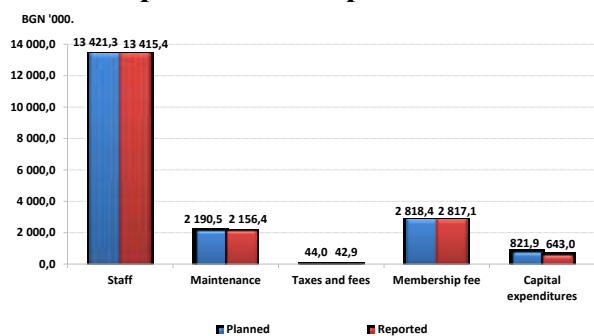
As of 31.12.2021, the FCS has incurred expenses in the amount of BGN 38,544 in connection with measures taken to prevent the spread of the COVID-19 pandemic. These are costs for the purchase of disinfection materials (disinfectants, bleach, alcohol) and protective equipment (reusable and disposable masks, gloves), disinfection of the premises in the administrative building of FSC, and for testing employees for the presence of a viral infection COVID- 19.

The Financial Supervision Commission has concluded a contract for the implementation of project BG05SFOP001-1.011-0001 for the construction of a Unified Information System (UIS), carried out with the financial support of the Operational Program “Good Governance” (OPGG), co-financed by the European Union through the European Social Fund. As of 31.12.2021, the reported expenses in the SES field are in the amount of BGN 1,440,171, of which BGN 468 for maintenance and BGN 1,439,703 for advance payment according to the terms of the contract concluded with a contractor for the construction of the UIS.

For the reporting period a **transfer** was made to the central budget (-) BGN 6,570,645, and the social security contributions and personal income tax in the amount of BGN 3,570,665 are reflected in the relevant subsections for transfers. Financing the project BG05SFOP001-1.011-0001 for construction of Unified Information System (UIS) is in the amount of BGN 143,970 and is at the expense of the budget of FSC.

The budget for 2021 has a **deficit** of (-) BGN 998,361, which in the part of financing is reflected with a plus sign and is formed by reported amounts under subparagraph 88-03 “Funds collected and payments made from/to EU accounts” - BGN998,206, the difference between available and transferred foreign funds BGN 390.

**Graph 20. Structure of FSC expenditures in 2021 – planned and reported**



Source: FSC.

The Financial Supervision Commission has concluded a contract for the implementation of project BG05SFOP001-1.011-0001 for the construction of a Unified Information System (UIS), carried out with the financial support of the Operational Program “Good Governance” (OPGG), co-financed by the European Union through the European Social Fund under procedure BG05SFOP001-1.011 through a direct grant.

As of 31.12.2021, the reported **expenses** in the SES field are in the amount of **BGN 1,440,171**, of which BGN 468 are current costs in connection with the implementation

of information and communication activities under the project and BGN 1,439,703. – capital costs related to an advance payment according to the terms of a contract with a contractor for the construction of an UIC.

For carrying out the costs of the project for the construction of the UIC a **transfer** was received from the OPGG in the amount of BGN 2,294,407. The remaining part of the financing of the project in the amount of BGN 143,970 is at the expense of FSC budget and is reflected as a received transfer in the statement of accounts for EU funds.

An **excess** in formed in the amount of BGN 998,206, which in the part of **the financing** is reflected with a "minus" sign as a result of reported amounts under subparagraph 88-03 "Funds collected and payments made from/to EU accounts". Funds for guarantees under the Public Procurement Act are received on the account for foreign funds of FSC. The balance under it as of 31.12.2021 is BGN 105,525. Prepared report B-3 - code 33 and NAL-3.

For the period from 01.01.2021 to 31.12.2021, changes were made to the budget of FSC as follows:

- Pursuant to Art. 109, para. 3 and para. 5 of the Public Finances Act (PFA) in connection with Decree of the Council of Ministers No. 113 of 29.03.2021 to approve additional expenses and transfers under the budget of the Ministry of Health for 2021, on 31.03.2021 the expenses according to the indicator "Current expenses" - "Maintenance and other current expenses" are reduced by BGN 163,600. By the same amount, the budget relationship of FSC with the central budget for 2021 and the indicator "Maximum amount of new liabilities that can be accumulated in 2021" were reduced.

- Pursuant to Art. 109, para. 3 and para. 5 of the Law on Public Finances (PLA) in connection with Decree of the Council of Ministers No. 177 of 29.04.2021 on the approval of additional expenses and transfers under the budget of the Ministry of Health for 2021, on 10.05.2021 are reduced expenses according to the indicator "Current expenses" - "Maintenance and other current expenses" with BGN 141,500. By the same amount, the budget relationship of FSC with the central budget for 2021 and the indicator "Maximum amount of new liabilities that can be accumulated in 2021" were reduced.

- Pursuant to Art. 110, para. 3 of the PFA in connection with Art. 78, para. 5, item 2 and para. 6 of the State Budget of the Republic of Bulgaria Act for 2021 and the Decision of the General Assembly of FSC employees on spending funds for social, domestic and cultural services on 26.11.2021, the expenses under the indicator "Sustainability and other current expenses" were reduced and the expenses under the "Personnel" indicator were increased by BGN 242,000. The "Maximum amount of spending commitments that can be made in 2021" and "Maximum amount of new obligations that can be accrued in 2021" indicators have been reduced by the same amount.

- Pursuant to Art. 112, para. 2 of the PFA on 21.12.2021, an internally compensated change was made within the framework of approved expenses, reducing the expenses under the indicator "Capital expenses" by BGN 255,100 and increasing the expenses under the indicator "Current expenses" - "Maintenance and other current expenses" - with BGN 255,100, incl. "Current maintenance" with BGN 95,100 and "Expenses for membership fees and participation in non-commercial organisations and activities" with BGN 160,000. The change was agreed with the chairman of the Electronic Government Agency, since the reduction of capital costs is in the field of electronic government and the information and communication technologies used.

- Pursuant to Art. 109, para. 3 and para. 5 of the PFA and Art. 106, para. 6 of the State Budget of the Republic of Bulgaria Act for 2021 and in implementation of Decree No. 474 of the Council of Ministers of 30.12.2021 for approving additional transfers under the budget of the State Social Insurance for 2021 on 30.12.2021 expenses under the budget of FSC were reduced by BGN 100,000. The budget relationship of FSC with the central budget for 2021 and the indicator "Maximum amount of spending commitments that can be made in 2021" and "Maximum amount of new liabilities that can be accumulated in 2021" indicators have been reduced by the same amount.

- Pursuant to Art. 77 of the State Budget of the Republic of Bulgaria Act for 2021 and in implementation of Decree No. 478 of the Council of Ministers of 30.12.2021, a change was made to the provisions established by Art. 41, para. 3, item 1 of the State Budget of the Republic of Bulgaria Act for 2021, an indicator of the budget of the Financial Supervision Commission for the maximum amount of spending commitments that can be undertaken in 2021, and the same has been increased by 800,000 BGN

## **8.5. Activity Report on the Internal Audit at FSC for 2021**

The activity of the IAU in 2021 was carried out in accordance with the requirements of the Public Sector Internal Audit Act, the International Standards for occupational 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 2021 were implemented, which are developed on the basis of a risk assessment, approved by the Chairperson of FSC and agreed with the Commission.

In 2021 the internal audit fulfilled the planned audit engagements, which achieves the set goals. When planning and executing the audits, a process approach is applied to audit the main



activities of FSC, with the aim of providing independent and objective assessments of legality and effectiveness. The benefit brought by the audit activity is promoting the introduction of uniform internal procedures, when appropriate, and improving the conditions for the functioning of the Commission as an effective supervisory body of the non-banking financial sector.

Assurance audit engagements have been made during the period, as follows:

- audit of supervisory practices and procedures of the Insurance Supervision Division, which is aimed at assessing the legality and adequacy of supervision in relation to the governance systems of insurance and reinsurance companies;
- audit with the aim of assessing the legality of public procurement actions in FSC;
- audit aimed at assessing the effectiveness of the participation of Commission representatives in the work of European bodies and structures in the field of non-banking financial supervision;
- audit with the aim of assessing the legality and adequacy of the internal rules and applied procedures for document circulation in FSC.

Official and unofficial audit engagements for consulting have been fulfilled, the most important of which are:

- audit of the internal rules and procedures governing the financial management and control systems (FMCS) in FSC, which was carried out according to the Guidelines for priority objectives and areas for auditing issued by the Minister of Finance when planning the internal audit activity for 2021;
- participation in a working group on drafting projects of FSC Strategy for 2022-2024 and FSC Risk Management Strategy for the period 2022-2024;
- supporting the process of updating internal rules of the Commission, by presenting notes, comments and proposals on the prepared projects to: Internal rules for financial management and control in FSC; Internal rules for the implementation of preliminary control for legality of the financial and economic activity in FSC; Internal rules for implementing the double signature system in FSC; Internal regulations for the document circulation of financial and accounting documents in FSC; Internal rules for the management of movable property - state property and provision of materials in FSC; Client Charter; Methodology for the analysis and assessment of the risk for the security of the information and communication systems in FSC.

In 2021, the internal audit unit made 34 recommendations. There is a lasting tendency for the recommendations of the IAU to be accepted by the management of FSC and the employees of leading positions. In addition, a high implementation rate is reported (89%, 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 FSC. Effective communication was carried out during the audits, with the heads of the audited structures and key employees providing assistance, having the necessary understanding and taking corrective actions on identified weaknesses, including during the engagements.

With a view to effective monitoring, the internal auditors participate in maintaining a common register of all recommendations addressed to FSC and given in cases of internal and external audits, inspections of the inspectorate, recommendations, and instructions of ESMA,

EIOPA, national control authorities, etc. The purpose is to present systematized up-to-date information on planned and undertaken corrective actions, intended for internal use.

The main conclusions about the functioning of the FMCS in FSC, made as a result of the internal audit activity, are the following:

- The Commission established a steady process of goal setting with regard to the presence of legally regulated purposes, outlined short-term strategic objectives and priorities, and determining and reporting of annual activities to achieve those.

- In 2021, effective actions were taken to develop and approve FSC Strategy for 2022-2024 and the Risk Management Strategy for 2022-2024. The documents define the priorities and goals set by the Commission as a regulatory and supervisory body of the non-banking financial sector in the Republic of Bulgaria, for the next three-year period, update and approve the standardized approach to risk management, which will ensure timely taking of adequate actions against the risks threatening the achievement of the institution's goals. Developed following the updated methodology approved by the Minister of Finance and risk management best practices consistent with the COSO Framework 2013 and the concept of the three lines of defence<sup>41</sup>;

- Risk management is an integral part of the overall management process in the Commission, based on prescribed procedures. Further development should be in the direction of systematic upgrading of knowledge of operative managers and FSC employees for continuous improvement of the quality and increasing the integrity of the risk register in the activity (use as a practical tool for preliminary consideration) and identifying potential difficulties).

- The Commission has all the required written rules in the field of FMCS. In connection with the amendments to the Financial Management and Control in the Public Sector Activities and the applicable methodology, the main internal rules governing control, as well as those in the field of financial-accounting and business activities, and human resources management, have been updated. In view of the higher requirements, the development of new procedures concerning the subsequent performance evaluations has been launched and the existing rules will be developed in order to refine the planning of the quantitative needs of personnel for the administrative units in FSC;

- The rules and procedures governing the audited activities are generally risk-based. In addition, it is important to deepen the efficiency of analysis in order to identify the need for comprehensive settlement of certain activities, 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.

- In the Commission, the FMCS has been introduced, which in general ensure compliance with the applicable legislation and internal acts, and effective implementation of the activities;

- Constant efforts are made to improve communication and information exchange systems. Examples of this are the updated and developed new written rules and policies in the field

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<sup>41</sup> The Integrated Internal Control Framework published by COSO (Committee of Sponsoring Organisations of the Treadway Commission) and the concept of the three lines of defense presented in positions of the International Institute of Internal Auditors and the Public Internal Control Network Working Group are introduced through the Methodological guidelines on the elements of financial management and control and the Guidelines for risk management in public sector organisations approved by the Minister of Finance.

of information and network security, as well as the activities of the project to build a unified information system. Efforts should be made to keep the external and internal information pages of FSC up-to-date and use them as reliable channels for providing up-to-date information;

- At FSC, there is ongoing monitoring of activities, thus allowing for changes and corrective actions, where necessary. As a result of the monitoring, in 2021 an increased activity on the review and updating of the internal rules of the Commission is reported. Improvement is needed in view of timeliness of changes.

## **8.6. Report of the Inspectorate**

In 2021, the Inspectorate of the Financial Supervision Commission (FSC) in accordance with the provisions of the Regulations on the structure and activities of FSC and its administration and the Internal rules for the activity of the Inspectorate in FSC, the Ordinance on the organisation and procedure for checking declarations and detecting conflict of interest, and in fulfilment of the orders of the Chairman of FSC, carried out scheduled and unscheduled inspections regarding the activities of the employees of FSC administration. The activities of the Inspectorate in 2021 were fully subordinated to the goals and activities laid down in the Annual Plan for control activities of the Inspectorate, as well as to the regulatory acts governing the activity of the Inspectorates.

The Inspectorate of FSC assisted the Chairman of FSC in carrying out his control functions regarding the activity of the administration in the Commission, FSC Act, the Administration Act, the Anti-Corruption and Detection of Conflicts of Interest Act.

In 2021, FSC Inspectorate has set the following goals:

- Prevention and elimination of violations in the functioning of the administration through an independent and objective assessment;
- Strengthening control in FSC by providing assessments, appropriate, accurate and timely recommendations to improve its effectiveness;
- Achieving effective administrative control over the activity of the administration by carrying out inspections, formulating proposals / measures to improve the work and eliminating the identified weaknesses and violations;
- Introducing effective mechanisms conducting the state anti-corruption policy through internal control and prevention of corruption;
- Achieving higher efficiency of the administration;
- Examination of complaints and reports against administrative units and employees of FSC;
- Continuous improvement of the activity of FSC Inspectorate and strengthening of the unit's administrative capacity by acquiring professional knowledge and skills of the inspectors and increasing their qualifications.

To achieve the goals, the activity of FSC Inspectorate in 2021 was aimed at:

- Carrying out inspections in compliance with the regulations in the performance of the functions in the inspected structural units, in order to limit negative phenomena and improve the activity in the administration of FSC;

- Carrying out inspections at the request of the Counter-Corruption and Unlawfully Acquired Assets Forfeiture Commission and the Prosecutor's Office of the Republic of Bulgaria;
- Performing inspections based on signals and proposals against illegal or improper actions or inactions by FSC administration officials;
- Performing inspections for analysis of the activity of the units and organisation of the work in FSC administration;
- Initiation of proposals for change of the legal framework, on the occasion of gaps, weaknesses, and errors in the activity of FSC administration.
- Reporting the results of the performed inspections and giving proposals for elimination of the identified gaps and violations.
- 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 the following 23 scheduled and ad hoc inspections:

- for evaluation of the efficiency of the activity - 2;
  - for compliance with applicable laws, regulations, and internal acts on the organisation of the activities of administration officials - 2;
  - for submission and verification of declarations under LACFUAP - 15.;
  - for corruption and inefficient work - 1.;
  - at the initiative of the authority - 1;
  - at the request of the prosecutor's office or other bodies of pre-trial proceedings - 2 pcs.
- FSC Inspectorate initiated 2 changes in regulatory and internal acts.

It should be noted that from the completed inspections in 2021 it was established that 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 FSC.

## II. MARKET ANALYSIS OF THE NON-BANKING FINANCIAL SECTOR

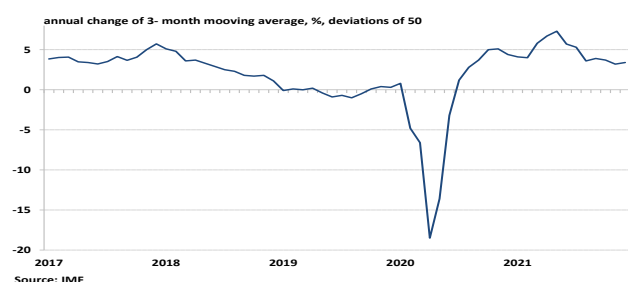
### 1. External environment and economic activity

#### 1.1. External environment

The growth of the world economy in 2021 sped up to 6.1% from -3.1% in 2020. The main factor with negative impact was the ongoing COVID-19 pandemic which had affected the world socially and economically. There remained the tension between the European Union, on the one hand, and Poland and Hungary, on the other, regarding the independence of the judicial system and media freedom in both countries. The Scottish National Party won the country's general election and was likely to seek a way to hold another referendum on independence from the Great Britain. Conservative cleric Ebrahim Raisi has won the presidential election in Iran. The Taliban established the Islamic Emirate of Afghanistan. At the end of 2021, tensions between Russia and Ukraine increased following the build-up of Russian troops near the border between the two countries.

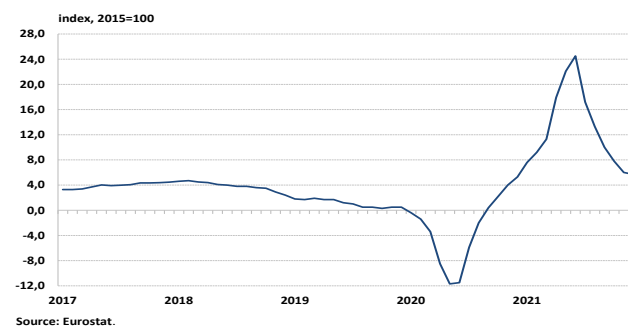
The development of the world economy influenced by the COVID-19 pandemic and trade disputes between the US and China continued to affect the Purchase Manager Index (PMI) for new orders in 2021. In the first months of the year, the PMI gradually increased and reached 7.3 points in the month of May, and subsequently slowed down its growth to 3.4 points in the month of December 2021, which is 1 point lower than the level of the index in the month of December 2020, however, regardless of this, it remains above the reference limit of 50 points that separates economic expansion from economic contraction.

**Graph 21. General PMI index**



Industrial production in the EU in 2021 increased gradually from the beginning of the year reaching 24.5% in the month of June and decreased to 5.7% in the month of December 2021, which is slightly above the level of the index from the end of 2020. Reduced investment costs in fixed assets and the slowdown in global activity due to the spread of the Omicron strain in the summer of 2021 are the reasons for the decline in industrial production.

**Graph 22. Industrial production (excluding construction)**



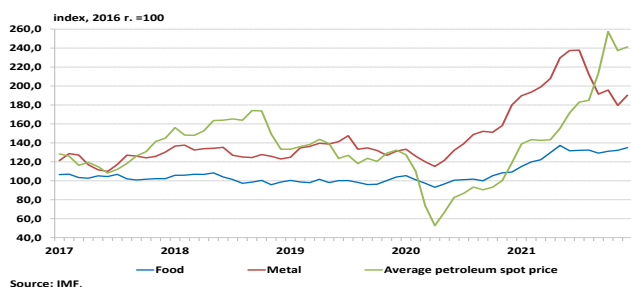
The increase in metal prices in 2021 is due to rising inflation, increased demand, and disruptions to commodity supply chains due to the COVID-19

pandemic. In May, the index reached 137.3 points, which is the highest level for the last 10 years. Metal prices are rising due to increased demand for cobalt, nickel and lithium used in batteries in the growing electric car market. Precious metal prices are rising due to investors' expectations of higher inflation.

Changes in the price of oil during the year were influenced by factors such as the recovery of demand for the raw material, the shorter-lasting effect of the Omicron strain at the end of 2021, as well as increasing geopolitical tensions in various parts of the world. Oil supply was capped in 2020 to stabilize the price, as the Organisation of the Petroleum Exporting Countries, plus Russia (OPEC+) and other non-OPEC exporters gradually increasing supply in 2021 to meet demand. At the end of 2021, the energy index reached 241.3 points, at a price of 118.8 points at the end of 2020.

The price index of agricultural products traded on international markets increased in 2021. Major crops such as wheat and corn have seen growth. Wheat prices are rising due to the severe drought that has gripped Canada and the US in the summer of 2021.

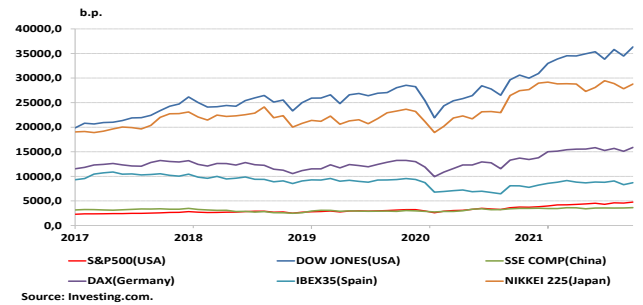
**Graph 23. Dynamics of prices of food, energy resources and metals**



Capital markets on a global scale report growth in 2021 due to the accommodative monetary policy of leading central banks. In the euro area, the German DAX rose by 18.3% and the Spanish IBEX35 by 12.3%.

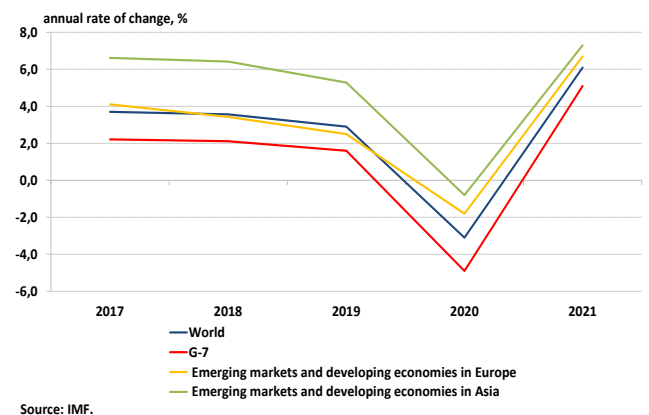
The US indices S&P500 and Dow Jones increased by 21.2% and 28.3%, respectively for 2021. Asia's stock markets in 2021 also went up, with Chinese SSE COMP increasing by 4.5% and Japanese NIKKEI225 increasing by 4.1%.

**Graph 24 Capital markets in developed economies**



Global economic growth accelerated to 6.1% in 2021, compared to -3.1% in 2020. The economies of the seven most developed countries (G-7) on the one hand, and emerging markets and developing economies in Europe and in Asia, are increasing to 5.1%, 6.7% and 7.3% respectively in 2021 compared to -4.9%, -1.8% and -0.8% respectively in 2020. The reason is the opening of economies and gradual easing of restrictions against the COVID-19 pandemic.

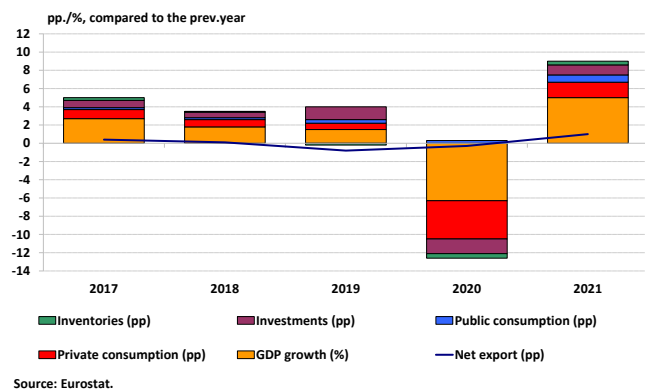
**Graph 25 GDP growth, annual rate of change**



Real GDP growth in the euro area in 2021 increased to 5% compared to -6.3% in 2020, as a

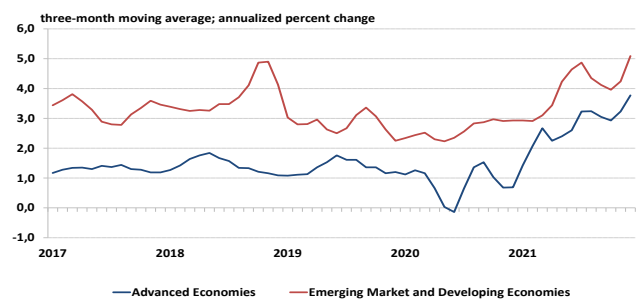
result of increased economic activity due to the pandemic slowing down. The largest increase was in private consumption (1.7 p.p. in 2021 compared to -4.2 p.p. in 2020), followed by investments, which increased by 1.1 p.p. GDP. Net exports contribute 1 p.p. due to the activation of international trade. Stocks grew to 0.4 p.p. for 2021 compared to -0.5 p.p. for 2020. Government consumption increased to 0.8 p.p. in 2021 due to increased government lending to combat the economic consequences of the coronavirus.

**Graph 26. GDP growth in the euro area**



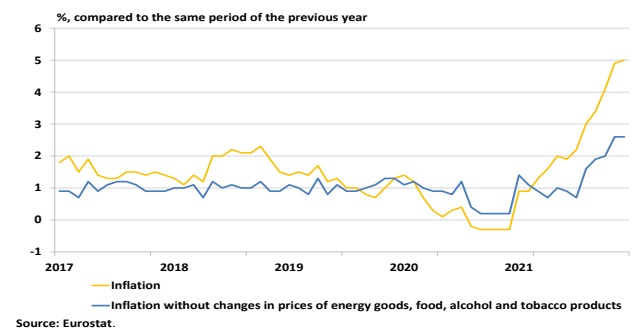
In 2021, the annual inflation decreased. In the developed economies inflation increased to 3.8% at the end of 2021 from 0.7% at the end of 2020, remaining below central bank targets of 2%. Inflation in emerging economies reached 5.1% at the end of 2021, compared to 2.1% at the end of 2020. The reasons for the increase is the increased money supply due to the targeted tranches from the central banks, the increase in the price of oil due to increased demand, the rise in prices of food, etc. The rise in inflation, especially in food prices, has had a significant impact on the economies of developing countries, as cereals such as wheat, maize and sorghum are a significant part of the diet of countries in sub-Saharan Africa, the Middle East and Central Asia.

**Graph 27. Inflation**



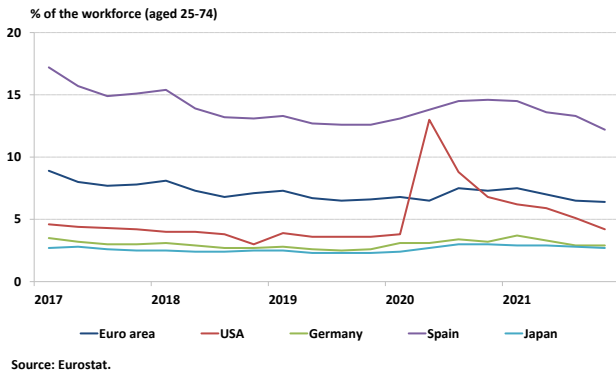
Euro area core inflation increased to 5% in 2021, up from -0.3% in 2020. Inflation, measured excluding energy, food, alcohol, and tobacco prices, reached 2.6% at the end of 2021.

**Graph 28. Inflation in the euro area**



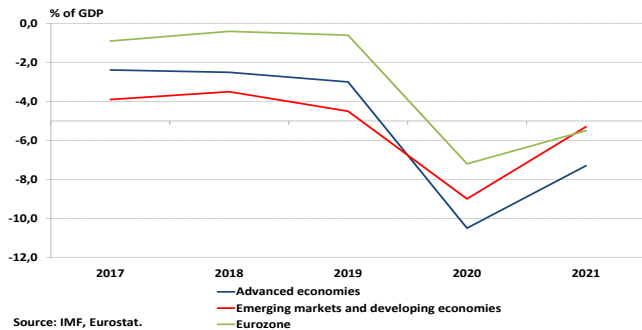
Unemployment fell in 2021 as restrictions against the COVID-19 pandemic eased and economies opened up. The euro area unemployment rate fell to 6.4% at the end of 2021 from 7.5% at the end of 2020. US unemployment also fell, reaching 4.2% in the last quarter of 2021 from 6.2% in the last quarter of 2020. Unemployment in Germany and Japan fell more moderately, reaching 2.9% and 2.7% respectively.

**Graph 29. Unemployment dynamics on a global scale**



In 2021, the budget deficit worldwide slowed down. The budget balance in developed economies remains in negative territory, decreasing to -7.3% in 2021 from -10.5% in 2020. The budget deficit in the EU decreased to -5.5% for 2021 compared to 7.2% for 2020. The budget deficit in emerging markets and emerging economies slowed down to -5.3% in 2021 from -9% in 2020.

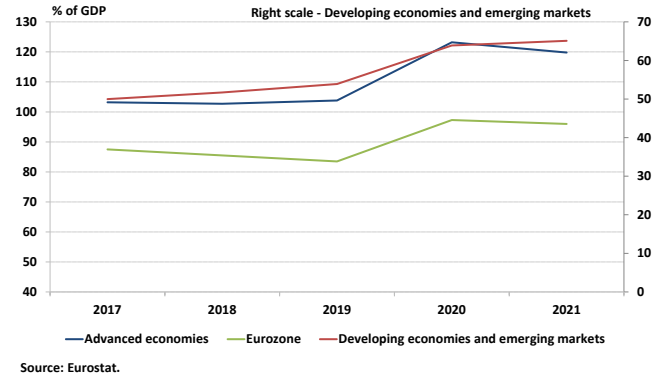
**Graph 30. Budget balance**



The total government debt of the EU countries (19) as a percentage of GDP decreased to 96% in 2021 compared to 97.3% in 2020. The public debt of advanced economies fell to 119.8% compared to 123.2% for the same period. Government debt in emerging markets and developing economies rose to 65.1% in 2021, up from 63.9% in 2020. The likely reason for the rise is smaller cash buffers that have been depleted to reduce the damage from the pandemic in these economies. The significant levels of debt taken on to fight the COVID-19 pandemic will further

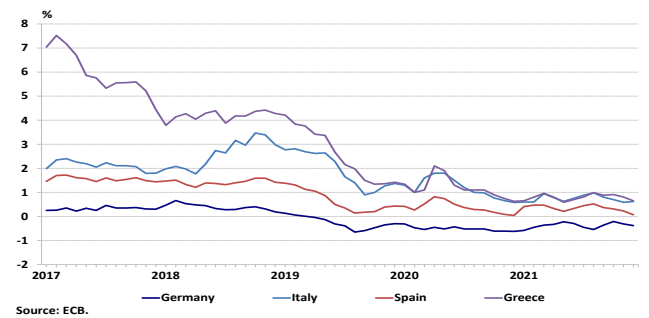
weigh on developing countries as interest rates rise.

**Graph 31. Total government debt**



The long-term interest rate for convergence purposes has variable dynamics in different countries in 2021. The average yield on Greek and Italian government securities has a minimal growth, reaching 0.7% and 0.1% respectively. The average annual yield on German government securities slowed down its drop to -0.4%.

**Graph 32. Long-term interest rate for the convergence of Germany, Italy, Spain, and Greece**

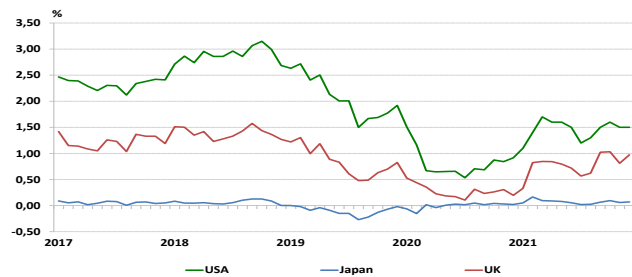


In 2021, the average annual yield on US and Japanese 10-year government securities rose 1.5% and 0.1%, respectively. The growth in the yield of government securities is a consequence of their sales, in anticipation of an increase in interest rates from the central banks. In 2021, British



government securities increased their average yield to 1%. The rise in interest rates on government securities has had a negative impact on the economies of some emerging markets, as they have to raise interest rates on their government securities in order to attract investors.

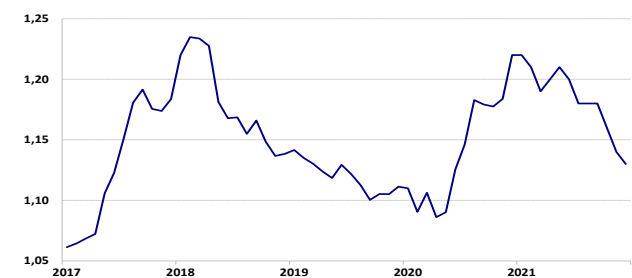
**Graph 33. Yield of 10-year government securities of the US, Japan, and UK**



Source: Investing.com

In 2021, the euro appreciated against the dollar, reaching an average annual rate of 1.18 USD per EUR as a result of continuing trade tensions between the United States and China and programs to support the economy of the US Federal Reserve (Fed).

**Graph 34. USD/EUR Exchange Rate**



Source: ECB.

In 2021, Central and Eastern European (CEE) countries reported GDP growth due to an acceleration of the global economy and increased external demand. Turkey reported the highest growth among CEE countries (11%). The Czech and Hungarian economies in 2021 grew by 3.3% and 7.1%, respectively, compared to -5.8% and -4.7% in 2020. GDP growth in the Polish and

Romanian economies was 5.7% and 5.9% respectively for the same period.

**Table 30. Real GDP growth in CEE**

	2020	2021
Czech Republic	-5,8	3,3
Hungary	-4,7	7,1
Poland	-2,5	5,7
Romania	-3,7	5,9
Turkey	1,8	11,0

In 2021, inflation in the CEE countries increased. Inflation in Turkey grew the most, rising to 19.6% in 2021 compared to 12.3% in 2020. The reasons are the weak Turkish lira, the high costs of manufacturers whose loans are in US dollars, etc. Inflation in Poland and the Czech Republic reached 3.8% and 5.1% respectively in 2021, up from 3.4% and 3.2% in 2020. Inflation in Hungary and Romania increased to 5.1% and 5%, respectively, up from 3.3% and 2.6% over the same period.

**Table 31. Inflation in CEE**

	2020	2021
Czech Republic	3,2	3,8
Hungary	3,3	5,1
Poland	3,4	5,1
Romania	2,6	5,0
Turkey	12,3	19,6

Note: Annual rate of change (%).

Source: IMF, National Statistical Institutes.

In the CEE countries, the unemployment rates had divergent dynamics in 2021. Unemployment in Turkey fell to 12.8% in 2021 compared to 13.2% in 2020. Unemployment in Poland and the Czech Republic had a minimal growth for the same period to 3.3% and respectively 2.7%. Unemployment in Hungary has slightly decreased to 4.1%, and in Romania it is unchanged at 5%.

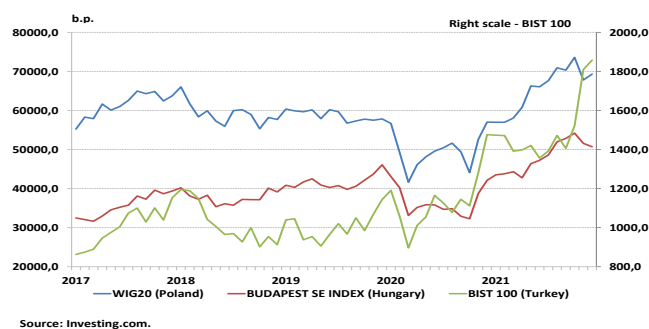
**Table 32. Unemployment rate in CEE**

	2020	2021
Czech Republic	2,6	2,7
Hungary	4,3	4,1
Poland	3,2	3,3
Romania	5,0	5,0
Turkey	13,2	12,8

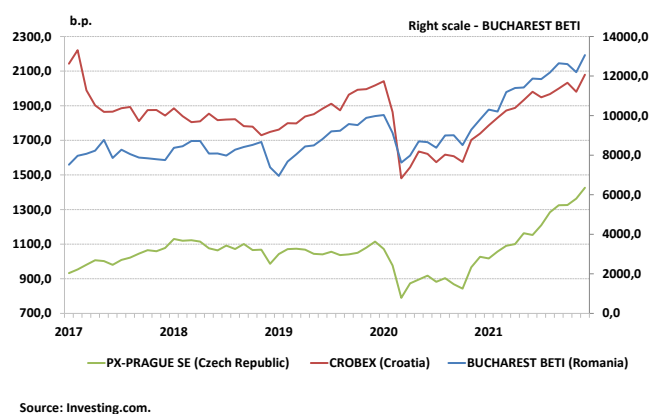
Note: Share (%) of the workforce.  
Source: IMF, National Statistical Institutes.

In 2021 stock indices in CEE countries had a positive dynamics. The Czech PX-PRAGUE SE has the highest growth, with 40%. Turkey's BIST100 and Hungary's BUDAPEST SE INDEX are up 26% and 17% respectively. Croatia's CROBEX, Poland's WIG and Romania's BET INDEX are up 16%, 22% and 27% respectively. The reason for the growth is optimism among investors about the opening of economies and the easing of restrictions against the COVID-19 pandemic.

**Graph 35. Capital markets dynamics in Poland, Hungary, and Turkey**



**Graph 36. Capital markets dynamics in the Czech Republic, Romania, and Croatia**



## 1.2. Overview of economic activity in Bulgaria

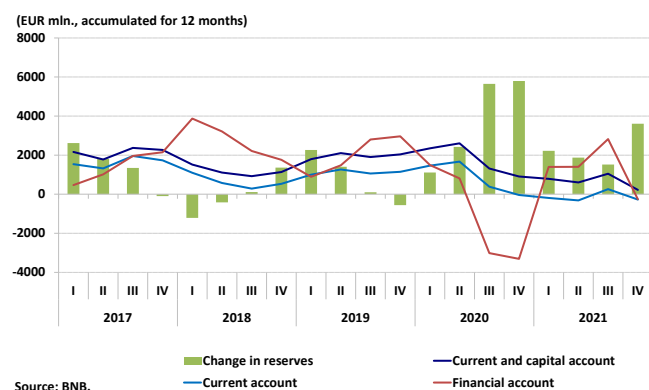
The measures taken to contain the consequences of the spread of the COVID 19 pandemic in 2021, as well as the new SARS-CoV-2 Omicron variant that appeared, had a positive effect on increasing economic activity in Bulgaria. In 2021, the Bulgarian economy reports a growth of 4.2%, which almost compensates for the fall of -4.4% in the previous year. By the end of 2021, the current account deficit decreased by -0.4 p.p. compared to 2020 and it reaches EUR -271.4 million. The volume of foreign direct investment in Bulgaria amounts to EUR 2256.1 million, which is EUR-1,731.4 million less than the previous year. In 2021, the country's gross external debt decreased to 5.4% annually, reaching EUR 42.0 billion at the end of the year, which represented 61.8% of GDP. Banks' credit exposures to the private non-financial sector are growing, together with households reaching an average annual growth of 6.4% compared to 5.2% in 2020. The average annual value of consumer price inflation is 2.9%, starting to increase significantly since the second quarter 2021, and by December 2021 it reaches 6.6% on an annual basis. The housing price index almost doubled its rate of change on an annual basis, from 4.6% on average for 2020 reaching 8.7% in 2021. Tendency in rental prices follows the same trend, the index increased to 2.8% in 2021 compared to 2.0% for 2020.

The banking sector remains stable, profitable, with high levels of capital adequacy and liquidity, despite of the global spread SARS-CoV-2 Omicron variant and as a result of the economic situation in the country at the end of 2021.

According to preliminary data for 2021, the total current and capital account balance is in the amount of EUR 219.3 million, compared to EUR 905.1 million at the end of 2020, a decrease of 75.7% is noted, but it is still positive. For the period January-December 2021 the current account deficit of the balance of payments amounts to EUR -271.4 million, reducing its value insignificantly by -0.3 p.p. compared to 2020. As a result, mainly of the lower amount of proceeds, related to investment subsidies to the General Government sector, the capital account surplus reached EUR 490.7 million.

The balance on the financial account for the year is negative (EUR -255.1 million), but EUR 3,053.8 million more than the reported negative balance in 2020. According to the balance of payments, the country's international exchange reserves decreased to EUR 3,606.3 million. After accounting for exchange rate differences and price revaluations, the international exchange foreign reserves in the BNB balance sheet increased by EUR 3,749 million (BGN 7.3 billion), as the assets of the Issue Department amounted to BGN 67.7 billion at the end of 2021.

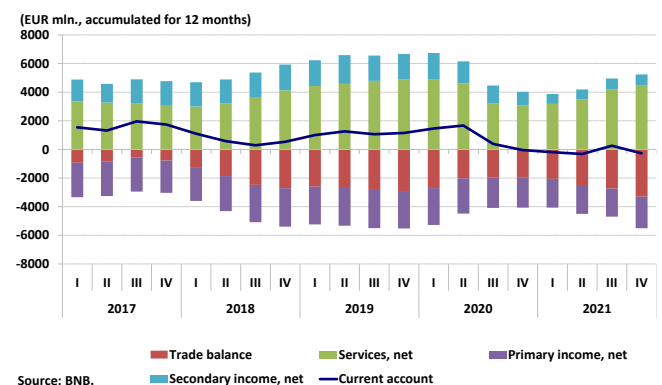
**Graph 37. Dynamics of main accounts of the balance of payment**



At the end of 2021, the current account deficit of EUR -271.4 million compared to the larger balance (EUR -41.4 million) of the previous year,

mainly due to the contraction of the trade balance with EUR -1,354.6 million compared to the end of 2020, reaching a value of EUR -3,296 million. The main factor for this is the high growth rate of the import of goods in real terms on an annual basis compared to the contraction of real exports, as well as the significant decrease in global economic activity. Secondary income, net contribution item is the second factor for the negative current account balance, declining by EUR -189.6 million compared to the end of December 2020 and reaching a value of EUR 741.6 million at the end of 2021. A major factor for these dynamics is the lower amount of money transfers to the country from Bulgarian working abroad. The Primary income, net item remains with a negative balance, with a deficit of EUR -2,210.2 million at the end of 2021, and contributes to a narrowing of the current account deficit by EUR 90.6 million EUR the end of the year.

**Graph 38. Current account and its components**



For the period January - December 2021, the balance on the financial account amounts to EUR -255.1 million, which is EUR 3,053.8 million more than reported for the same period of 2020 and it is due to an increase the foreign assets of Bulgarian residents compared to the foreign liabilities. For the growth of foreign assets, their increase in the "Central Bank" sector is of primary importance. The increase is due to the higher

\*BNB data 2021

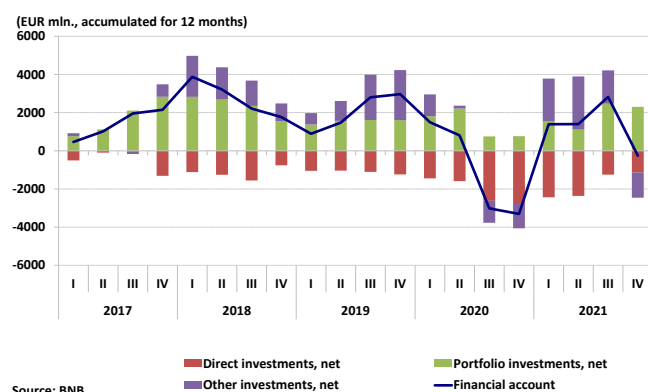
<sup>1</sup> The review has been prepared based on publicly available data as of 05.04.2021

According to preliminary data of the National Statistical Institute, the GDP in 2021 was BGN 132,744 million.

amount of the banks' short-term assets in the form of "Currency and deposits". Under "Other sectors" there is also an increase in assets outside Bulgaria - mainly in the line of portfolio investments, which, although to a significantly lower extent, also contributes to the net outflow of funds from the country. The positive balance formed on the financial account during the year is partially limited by the additional 859 million special drawing rights (SDR) allocated to Bulgaria on 24.08.2021\*

The only component of the financial account that contributes negative growth to the contraction of the balance at the end of 2021 is "Other investments, net", recording a negative growth in the balance of EUR -44.6 million compared to the end of 2020 and reach up to EUR -1,321.0 million at the end of the last quarter of 2021. "Direct investments" reduced their deficit by EUR -1,646.4 million compared to the end of the previous year, reporting an amount of EUR -1,132.0 million at the end of 2021.

### Graph 39. Financial account and its components



For the period January - December 2021, the flow of foreign direct investment (FDI) in the country amounted to EUR 1.1 billion, which is EUR 64.5 on than the previous year. The only part of FDI in our country, which has a positive value during the year and shows growth, is in the form of reinvested profit (EUR 1,775.4 million), which

\*BNB data 2021

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increases by EUR 722.8 million compared to 2020. Debt instruments report a decline from EUR -1,743.5 million compared to the previous year and recorded a balance of EUR -474.0 million. The flow of FDI in the form of share capital, other than reinvested earnings, was negative and amounted to EUR -36.3 million.

### Table 33. FDI dynamics in Bulgaria by type of investment

	2017	2018	2019	2020	2021
Total	1606	968	1639	2997	1265
Equity and investment fund shares/units	-25	390	-157	674	-36
Reinvestment of earnings	861	1214	1159	1053	1775
Debt Instruments	770	-637	637	1270	-474

Note: Date refer to the volume of FDI in the country (in EUR mln).  
Source: BNB.

The distribution of FDI in Bulgaria by sectors in 2021 is characterized by some change compared to the previous year. The Trade, repair of cars and motorcycles sector, which in 2020 ranked last, in 2021 recovered some of its volume, reporting a surge of FDI amounting to EUR 102.6 million EUR. The biggest decrease in the volume of FDI was reported in the "Transport, storage and post" sector, reducing its value by EUR -306.1 million and reaching EUR -78.9 million. The "Construction" sector occupies the second place, with a decrease of EUR -40.6 million compared to EUR 223.7 million for 2020.

Growth of FDI at the end of 2021 was reported by the following sectors: "Creation and dissemination of information and creative products; telecommunications" (EUR 93.6 million), "Hotel and restaurant business" (EUR 73.7 million), "Production and distribution of electric and thermal energy and gaseous fuels" (EUR 61.9 million) and "Financial and insurance activities" (EUR 59.6 million).

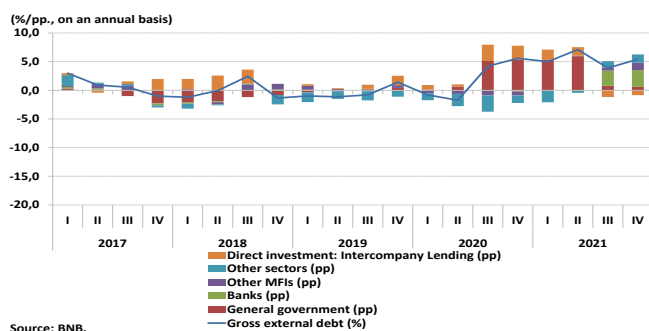
### Table 34. FDI structure in Bulgaria by economic activity

	2017	2018	2019	2020	2021
Mining industry	-21,5	-17,3	-13,6	43,2	48,7
Manufacturing	491,6	-135,5	301,4	187,8	-55,0
Production and distribution of heat energy and gaseous fuels	-207,7	-70,3	-14,9	-6,9	55,0
Construction	197,3	-4,8	63,2	223,7	-40,6
Trade, repair of motor vehicles and motorcycles	233,6	424,4	807,4	27,8	130,4
Transport, storage and postal services	11,2	35,8	16,2	227,2	-78,9
Accommodation and food service activities	-17,8	-56,5	-36,4	-76,4	-2,7
Information and communication	-215,7	-93,4	39,5	164,6	258,2
Financial and Insurance Activities	309,8	649,7	145,6	711,8	771,4
Real estate Activities	334,9	78,1	185,3	64,5	-48,8

Note: Data are in million EUR. The structure covers ten leading economic sectors.  
Source: BNB.

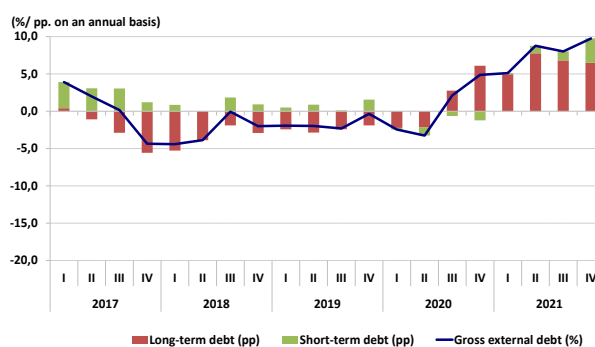
In 2021, the country's gross external debt increased by 5.4% on an annual basis, reaching EUR 42.0 billion at the end of the year or 61.8% of GDP. The largest contribution to the increase in debt was made by the increase in the foreign liabilities of other monetary and financial institutions (1.4 p.p.). The debts of the "Central Bank" and "General Government" sectors report an increase of 0.3 p.p., while that of the "Direct Investments, Intra-Corporate Lending" sector limits the total growth of the gross external debt by -0.6 p.p.

**Graph 40. Dynamics of gross external debt by institutional sectors**



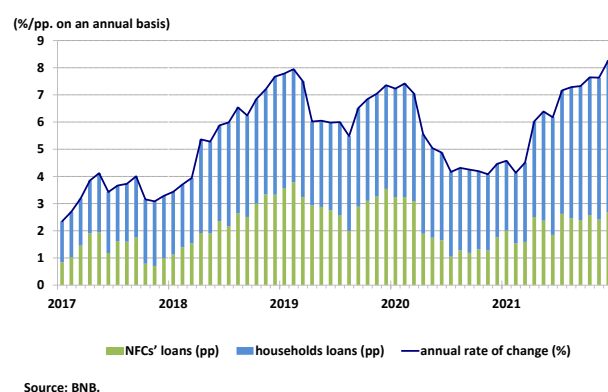
In line with the overall dynamics of gross external debt in 2021, its short-term component without intercompany lending increased by 13.7% on and represented 24.6% of total external debt at the end of the year. Long-term debt also increased by 8.5% and reached a share of 75.4% of the country's external debt at the end of year.

**Graph 41. Dynamics of gross external debt by maturity structure, without intercompany lending**



In 2021 there was a noted increase in bank loans to the private non-financial sector has been interrupted, and loans to non-financial corporations and households recorded an average annual growth of 8.3% compared to 4.5% at the end of 2020. Loans to households grew at a faster pace (13.4%), contributing 5.6 p.p. to the total growth of lending to the private non-financial sector at the end of the year. Loans to non-financial corporations reported growth of 2.3% at the end of the year, contributing 2.7 p.p. to the general dynamics.

**Graph 42. Dynamics of loans to non-financial corporations and households**



The growth of loans to households in 2021 is mainly due to the increase in housing loans by 17.6% at, which contributes by 8.3 p.p. to the total growth of loans to households. At the end of 2021, consumer loans increased by 11.1% and

\*BNB data 2021

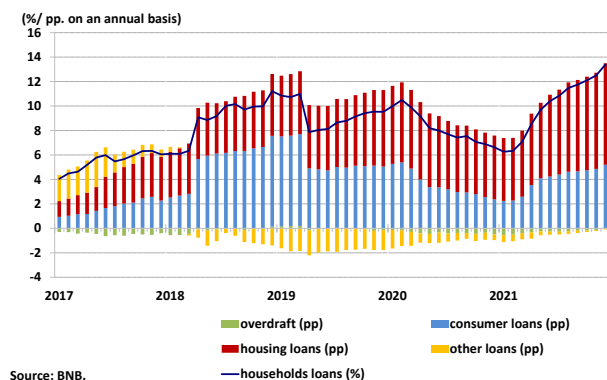
<sup>1</sup> The review has been prepared based on publicly available data as of 05.04.2021

According to preliminary data of the National Statistical Institute, the GDP in 2021 was BGN 132,744 million.

contributed by 5.2 p.p. Loans other than consumer and housing, as well as overdrafts, limit the overall growth with negative contribution of -0.3 p.p.

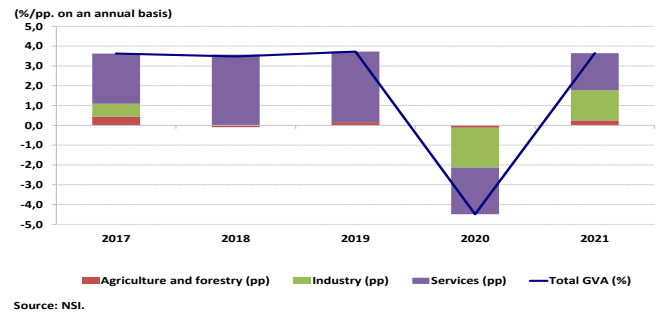
At the end of December 2021, the total amount of the balance sheet assets of the banking system was BGN 135.4 billion. The gross amount of non-performing loans and advances in the banking system amounted to BGN 4.9 billion, and their share in the total amount of gross loans and advances decreased to 6.0%. The net value of non-performing loans and advances, after deducting the impairment inherent in this classification category, amounts to BGN 2.6 billion at the end of 2021 or 3.3 % of the total net value of loans and advances.

**Graph 43. Dynamics of loans to households**



Total value added in the economy increased in real terms by 3.6% in 2021, to which the service sector (1.9 p.p.) contributed the most, followed by of the industry (1.5 p.p.), and agriculture and forestry (0.2 p.p.).

**Graph 44. Dynamics of Value Added and contribution by sectors**



A detailed breakdown of value added by sector in the economy shows that among services, the largest positive contribution to gross added value in 2021 was reported by the sectors: "Mining and quarrying sector; manufacturing industry; production and distribution of electricity and heat and gaseous fuels; water supply; sewerage, waste management and remediation activities" (1.9 p.p.), followed by "State administration; education; human health care and social work" (0.6 p.p.). Two of the sectors contribute with equal values of 0.5 p.p. - "Real estate operations" and "Creation and distribution of information and creative products; telecommunications", and three of the sectors recorded a positive contribution of 0.2 p.p. - "Agriculture, forestry, and fisheries", "Professional activities and scientific research; administrative and ancillary activities" and "Culture, sports and entertainment; other activities". There are two sectors with a negative contribution: "Trade, repair of cars and motorcycles; transport, storage and mail; hotel and restaurant industry" (-0.5 p.p.) and "Construction" (-0.4 p.p.).

\*BNB data 2021

<sup>1</sup> The review has been prepared based on publicly available data as of 05.04.2021

According to preliminary data of the National Statistical Institute, the GDP in 2021 was BGN 132,744 million.

**Table 35. Dynamics of Value Added by sectors**

	2017	2018	2019	2020	2021
Total for the economy (%)	3,6	3,5	3,7	-4,5	3,6
	Принос (пр.п.)				
Agriculture, forestry and fisheries	0,4	-0,1	0,2	-0,1	0,2
Manufacturing, mining and quarrying; production and allocation of electricity, heating and gas fuels; water supply; sewerage services; waste management and recovery	0,5	0,0	-0,2	-2,0	1,9
Construction	0,2	0,0	0,2	0,0	-0,4
Wholesale, repair of motor vehicles and motorcycles; transport, storage and postal services; accommodation and food services	0,5	0,7	0,9	-1,5	-0,5
Creation and distribution of information and creative products; telecommunications	0,4	0,6	0,9	0,3	0,5
Financial and insurance activities	0,1	0,1	0,2	0,0	0,4
Operations with real estate	0,7	1,1	0,5	-0,7	0,5
Professional activities and research; administrative and auxiliary activities	0,1	0,5	0,9	-0,3	0,2
Government management; education, healthcare and social works	0,7	0,4	0,1	0,4	0,6
Culture, sports and entertainment; others	0,1	0,0	0,1	-0,6	0,2

Note: Data for 2021 are preliminary.  
Source: BNB.

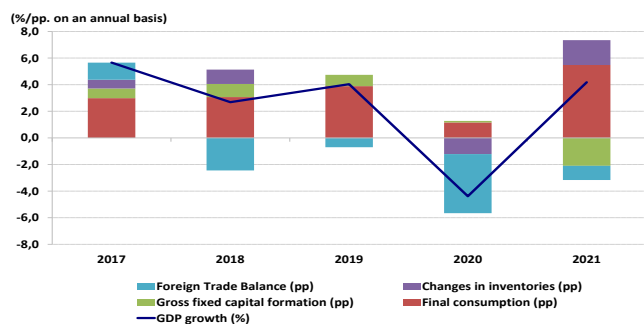
Държавно упр.; образование; хуманно здравеопазване и соц. работа – Government management; education, healthcare and social works

Култура, спорт и развлечения; други – Culture, sports and entertainment; others

Бележка: Данните за 2021 г. са предварителни. – Note: Data for 2021 are preliminary.

According to preliminary data, real GDP growth in 2021 amounts to 4.2% annually. Final expenditure during the year grew by 4.3 p.p., and the change in inventories contributed to the growth of GDP by 1.9 p.p. The domestic trade balance limits GDP growth by -1.1 p.p. at the end of the year compared to -4.4 p.p. in 2020. The formation of fixed capital passed into negative territory compared to the previous year, limiting GDP growth with the largest negative contribution of -2.1 p.p.

**Graph 45. GDP growth and contribution of components of final expenditures**



Exports of Bulgarian goods and services in 2021 amounted to EUR 38.4 billion, increasing by 24.5% compared to the previous year. The greatest contribution is made by: export of raw materials

\*BNB data 2021

<sup>1</sup> The review has been prepared based on publicly available data as of 05.04.2021

According to preliminary data of the National Statistical Institute, the GDP in 2021 was BGN 132,744 million.

and materials (12.0 p.p.), followed by export of investment goods (5.5 p.p.) and export of energy resources (4.3 p.p.). The smallest contribution is the export of consumer goods -2.7 pp.

**Table 36. Contribution of main groups of goods to the exports' dynamics**

	2017	2018	2019	2020	2021
Export (% on an annual basis)		2,6	4,3	-6,3	24,5
	Contribution (p.p.)				
Consumer goods		0,9	1,7	0,2	2,7
Raw materials and supplies		1,8	1,0	0,0	12,0
Investment goods		0,6	0,2	-1,3	5,5
Energy resources		-0,7	1,3	-5,3	4,3

Source: BNB.

The same trend follows the dynamics of imports in Bulgaria, which for 2021 increased its volume by 27.6% compared to the same period of the previous year and reached BGN 8,481.9 million. The largest growth, in the amount of 10.5 p.p., was recorded by the sector of raw materials and materials, followed by the import of energy resources (6.7 p.p.), and the import of investment and consumer goods contributed respectively by 6.1 p.p. and 4.2 p.p.

**Table 37. Contribution of main groups of goods to the import's dynamics**

	2017	2018	2019	2020	2021
Import (% on an annual basis)	15,7	6,1	5,0	-8,9	27,6
	Contribution (p.p.)				
Consumer goods	2,2	1,4	2,3	-0,4	4,2
Raw materials and supplies	6,6	2,2	-0,2	-0,3	10,5
Investment goods	2,7	2,4	1,7	-2,1	6,1
Energy resources	4,1	0,1	1,1	-6,2	6,7

Source: BNB.

The real growth of final consumption accelerated from 1.5% in 2020 to 7.0% in 2021. The main driver for the reported dynamics is the individual consumption of households (6.0 p.p.), and the individual consumption of the government contributes by 0.6 p.p. Collective consumption, which measures the government's final expenditure on collective services provided to

society as a whole, contributing 0.4 p.p. in total end consumption.

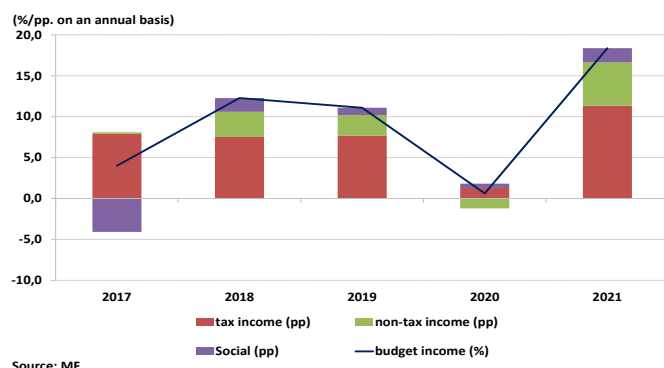
**Table 38. Growth of final consumption expenditure and contributions of its components**

	2017	2018	2019	2020	2021
Final consumption	3,8	4,0	5,1	1,5	7,0
Individual consumption (p.p.)	3,2	3,6	5,0	0,8	6,6
Consumption of household (p.p.)	2,8	2,9	4,7	-0,3	6,0
government (p.p.)	0,4	0,6	0,3	1,1	0,6
collective consumption (p.p.)	0,7	0,5	0,1	0,8	0,4

Note: Data for 2021 are preliminary.  
Source: NSI.

The budget balance under the Consolidated Fiscal Program (CFP) in 2021, according to official data, is negative in the amount of BGN -3.7 billion, which represents a deficit of -3.0% of GDP. Revenues reported a growth of 18.4%, which is mainly due to the value added tax (4.4 p.p.), the tax on social and health insurance contributions (2.8 p.p.) and personal income tax (1.5 p.p.). Non-tax revenues contribute 5.3 p.p., and aid reports a positive contribution of 1.7 p.p. Excise tax (0.5 p.p.) and other taxes (0.5 p.p.) made the same contribution to the growth of budget revenues.

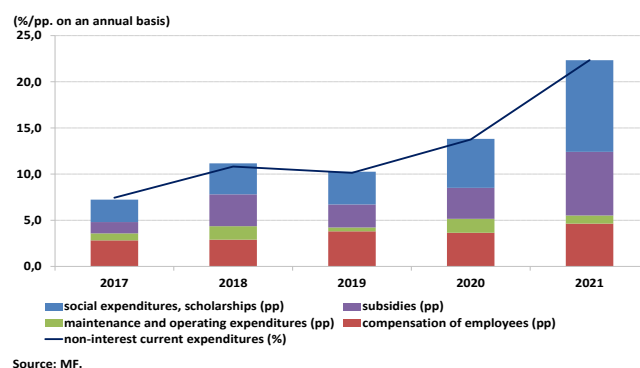
**Graph 46. Contribution of components to the dynamics of budget revenue**



Budget expenditures increased by 17.6% in 2021 compared to the 5.9% previous year, to

which current expenditures contributed the most (19.3 p.p.), followed by social insurance, aid, and care expenses (9.9 p.p.), while capital expenditures have a negative contribution of -2.5 p.p. The budgetary expenditure for contribution to the general EU budget in 2021 increased by 29.8% compared to 8.6% in 2020, contributing 0.8 p.p. in the general growth of budget expenditures.

**Graph 47. Contribution of components to the dynamics of non-interest current expenditure**



In 2021, employment in Bulgaria decreased by -1.4% on an annual basis, as the number of employees aged 15 and over decreased to 3.07 million. This dynamic is due to a decrease in employment growth, with the negative contribution of -0.9 p.p. for men and -0.6 p.p. for women. Employment is declining in almost all age groups, with the most pronounced among 15–24-year-olds, despite a 9.5% drop compared to 2020. With a larger contribution (-0.6 p.p.) to the total persons in the age group between 25 and 34 years are declining.

The number of persons in paid employment decreased by -1.1% on an annual basis to 2.19 million people. This trend is almost entirely due to a decline in employees in the private sector (-6.7 p.p.). By economic activities, there was a decrease of the number of employees in all sectors, but mainly in the construction industry (-0.44 p.p.) and in the Transport, storage, and mail sector (-0.36 p.p.).

\*BNB data 2021

<sup>1</sup> The review has been prepared based on publicly available data as of 05.04.2021

According to preliminary data of the National Statistical Institute, the GDP in 2021 was BGN 132,744 million.



The "Hospitality and restaurant industry" sector contributed to the overall decline by -0.21 p.p.

The income of employees measured by compensation of employees, representing gross income that also included changes in social insurance contributions, increased by 6.4% in 2021 compared to an increase of 4.2% in the previous year.

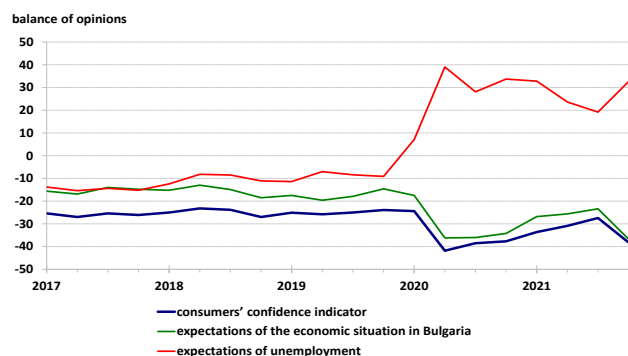
**Table 39. Employment and income**

	2017	2018	2019	2020	2021
Employed persons	4,4	0,1	2,6	-3,4	-1,4
Employees	1,4	0,5	0,1	-4,8	-1,1
Compensation for employees	10,9	10,6	8,6	4,2	10,6
Unemployment	6,2	5,2	4,2	5,1	5,3

Note: Data show a change compared to the previous year, and are preliminary for 2021; \* average unemployment coefficient for the period (% of the workforce).  
Source: NSI.

Consumer confidence in 2021 maintained its low levels since 2020, reaching -38.2 at the end. The indicator is supported by consumer expectations of unemployment, which are highly elevated in 2021 as well. The deterioration of consumer confidence is influenced by higher expectations of a worsening of the economic situation in the country.

**Graph 48. Consumers' confidence indicator**



Household incomes in 2021 accelerated their growth to 6.8% on an annual, to which salaries (4.6 p.p.) and pensions (3.2 p.p.) had the sole contribution. Restrictions on property (-25.8 p.p.) and sales income (-25.6 p.p.) restrict the

\*BNB data 2021

<sup>1</sup> The review has been prepared based on publicly available data as of 05.04.2021

According to preliminary data of the National Statistical Institute, the GDP in 2021 was BGN 132,744 million.

growth of household incomes during the year. The savings withdrawn by households increased by 23.3%, and loans and credits received by them decreased by -23.1%.

**Table 40. Dynamics of household incomes**

	2017	2018	2019	2020	2021
Total income	6,0	4,8	6,8	5,1	6,8
Salary and wages	6,1	6,9	8,9	4,1	8,2
Withdrawn savings	15,3	11,6	-3,5	-9,2	23,3
Loans and credits	11,1	62,0	-25,9	-20,6	-23,1

Note: Data are on an annual basis (%).  
Source: NSI.

Household spending in 2021 recorded a significant growth of 9.9% compared to -1% in 2020. Consumer spending grew by 11.2% and contributed the most - with 9.1 p.p. in total household expenditure. Of these, the costs of food and the costs of housing, water, electricity, and fuels have a significant contribution, respectively from 2.01 p.p. and 1.37 p.p. In 2021, all household expenses are increasing, with the largest growth, outside of those described above, being observed in clothing and footwear expenses (32.7%), home furnishing and maintenance expenses (24.1%), leisure expenses, cultural recreation, and education (21.2%), spending on various goods and services (17.4%). Household expenses on taxes and social security increased by 6.5% and 3.2%, respectively, which contributed by 0.37 p.p., and 0.26 p.p., respectively, to total expenses. In 2021, the trend of households to save is interrupted. Their deposit expenses report a negligible growth of 1.6%, and the funds allocated for debt repayment or lending continue grew by 1.4%.

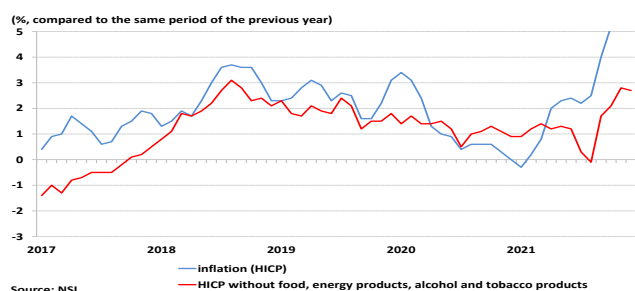
**Table 41. Dynamics of households' expenditures**

	2017	2018	2019	2020	2021
Total cost	7,6	7,7	4,9	-1,0	9,9
Total user cost	6,9	6,7	5,2	-1,3	11,2
Taxes	15,0	6,9	6,6	2,1	6,5
Deposit	41,8	5,2	22,6	31,3	1,6
Paid debt and granted loan	-3,0	-15,3	-0,3	-2,3	1,4

Note: Data are on an annual basis (%).  
Source: NSI.

From the second quarter of 2021, inflation began to rise significantly, with its average annual value of 2.9% contributing 1.6 p.p., compared to the annual average and a value of 1.2% for the previous year. As of December 2021, inflation in the country rose to 6.6% and reached values since 2009. Core inflation also recorded a higher rate of change, with the annual average amounting to 1.4% compared to 1.2% compared to 2020.

### Graph 49. Inflation



The largest contribution to the inflation accumulated during the year was made by food products (2.3 p.p.) and services (1.4 p.p.). Among services, the biggest contribution to the general inflation is the prices of public catering (0.6 p.p.). The prices of industrial goods contribute to the overall growth of inflation by 2.3 p.p. Among them, the prices of liquid and transport fuels have the largest contribution of 0.8 p.p. Administrative prices increased by 1.6 p.p.

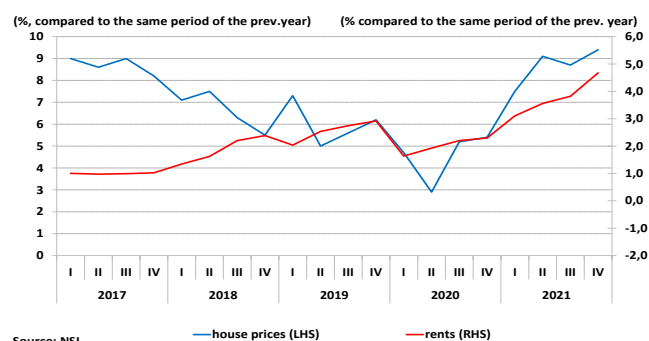
**Table 42. Contribution of main groups of goods to inflation**

	2017	2018	2019	2020	2021
Inflation (% compared to Dec)	1,6	2,3	3,1	0,0	6,6
<i>Contribution (p.p.)</i>					
Food products	0,6	1,2	1,4	0,4	2,3
Unprocessed foods	0,2	0,2	0,5	-0,1	0,3
Processed foods	0,4	1,0	0,8	0,6	2,0
Services (all excluding goods)	0,5	1,8	0,9	0,7	1,4
Catering	0,2	0,4	0,3	0,2	0,6
Transport services	0,1	0,4	0,0	0,1	0,4
Telecommunications	0,0	0,1	-0,1	0,0	-0,2
Energy and home heating	0,3	0,8	0,1	0,0	0,9
Liquid and transport fuels	0,4	0,4	0,3	-1,0	0,8
Industrial goods	0,5	0,7	0,6	-1,2	2,3
Administrative prices	-0,7	0,0	0,4	-0,1	1,6

Source: Eurostat

In 2021, the growth of housing prices in our country increased its rate, reporting a significant increase of 8.7% on average annual compared to 4.6% in 2020. The higher growth of housing prices is determined by demand from households and the high percentage of newly built/vacant housing stock. Rental prices also grew, reaching 3.8% on an average annual basis compared to 2.0% in 2020.

### Graph 50. Dynamics of housing prices and rents



\*BNB data 2021

<sup>1</sup> The review has been prepared based on publicly available data as of 05.04.2021

According to preliminary data of the National Statistical Institute, the GDP in 2021 was BGN 132,744 million.

## 2. Overview of the non-banking financial sector in Bulgaria

In 2021, the assets of the participants in the non-banking financial sector decreased by -11.6% and reached BGN 47 billion at the end of the year, and the assets of all types of non-banking financial companies and segments (except non-banking investment firms) reported a positive change on annual basis. The largest contribution of 4.2 p.p. is of the growth of assets of pension funds, followed by the assets of the insurance and reinsurance companies (2.7 p.p.), the increase of the assets managed by the management companies and the alternative investment fund managers (1.4 p.p.), the change of the assets of collective investment schemes and other collective investment undertakings (1.8 p.p.) and the increase in the assets of special purpose investment companies (0.1 p.p.). The assets of non-banking investment firms, the main part of which are client assets, limit the growth with a negative contribution of -21.6 p.p. As a result of this dynamics the role of companies in the non-banking financial sector in the structure of financial intermediation decreased significantly, as the assets of the participants in the supervised sector of FSC reach 25.8% 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 in 2021 amounted to 35.4%. The depth of financial intermediation in the non-banking financial sector measured through market capitalisation on the stock exchange decreased to 23.2% at the end of 2021 compared to 23.6% of GDP at the end of 2020.

**Table 43. Relative structure of the assets of non-banking financial sector participants (% of the assets of the banking and non-banking financial sector in Bulgaria)**

Indicators	2017	2018	2019	2020	2021
Non-banking investment firms	10.8	13.6	12.5	11.1	4.5
Management companies and AIFMs	1.4	1.3	1.4	1.4	1.7
CIS and other collective investment undertakings*	1.0	1.0	1.0	1.0	1.5
SPICs	1.1	1.1	1.1	1.1	1.0
(Re)insurance companies	9.8	5.3	9.8	5.7	6.2
SPFs	9.2	8.8	9.5	9.8	10.8
<b><i>Participants in the non-banking financial sector</i></b>	<b><i>1.0</i></b>	<b><i>31.2</i></b>	<b><i>31.0</i></b>	<b><i>30.0</i></b>	<b><i>25.8</i></b>

Notes: \* Includes balance sheet assets of CISs, AIFs, SWFs and NID.

Source: BNB, FSC.

The assets of non-banking investment firms (IF) decreased by -58.2% in 2021 and at the end of the year reached BGN 18.2. The reason for this dynamic is a decrease in the client assets (financial instruments) of one IF with a partial licence by BGN -12.7 billion. Excluding this single factor, the assets of the rest of the non-banking IFs grew by 35.1% on an annual basis. The assets of the non-banking IFs with a full licence increased by 32.9% on an annual basis and limited the decline in the assets of the non-banking IFs with a positive contribution of 7.1 p.p.

The assets of management companies and alternative investment fund managers increased in absolute terms by BGN 856 million, which is an increase of 35.3% on an annual basis, amounting to BGN 3.3 billion at the end of the year. Of these, BGN 2.6 billion are the managed assets of collective investment schemes and BGN 0.5 billion are managed assets of clients on trust management of portfolios.

The assets of collective investment schemes (CISs) increased by a total of 40.2% compared to the previous year. The observed dynamics is

mainly due to an increase in the assets of the mutual funds and exchange traded funds (ETF) which at the end of the year were 116, and the amount of their assets reached BGN 2.5 billion. There are twenty-eight alternative investment funds that manage BGN 278.9 million in assets. Due to the relatively small absolute value of assets, collective investment schemes account for 1.5% of the structure of financial intermediation.

The assets of special purpose investment companies (SPICs) increased by 2.7% on an annual basis and by the end of the year their amount reached BGN 1.9 billion. The largest contribution to this growth was made by the assets of SPICs securitising receivables (1.7 p.p.). SPICs investing in real estate and agricultural land contribute positively by 1.0 p.p. in the annual growth of assets in the sector. In relative terms, the share of special purpose investment companies in the structure of financial intermediation at the end of 2021 decreased insignificantly to 1.0%.

The assets of (re) insurers increased by 14.3% in 2021 compared to 7.5% in 2020, and their share in the structure of financial intermediation increased compared to the previous year and amounts to 6.2%. The largest contribution of 5.8 p.p. for the growth of the assets of the (re)

insurance market lies with the increase of the assets of life insurance companies (28.0%), followed by the growth of the assets of non-life insurance companies by 9.9%, which also have a positive contribution of 4.9 p.p. The assets of the only reinsurance company in Bulgaria increased by 12.1% on an annual basis and had a positive contribution of 3.6 p.p. to the change in the insurance market assets.

The growth of pension funds' balance sheet assets increased to 12.7% in 2021 compared to 10.6% in 2020. The increase in their assets is due to the income from insurance contributions, which reported the largest growth compared to the previous five years. The positive result of the investment of the funds accumulated in the individual lots during the year is also a contribution to the growth, maintaining its upward trend. Pension funds rank first among the institutional investors of the non-banking financial sector and the amount of their balance sheet assets at the end of the year amounted to BGN 19.6 billion. Their relative share in the structure of financial intermediation at the end of the year amounted to 10.8%.

**Table 44. Market capitalisation of the stock exchange and assets of non-banking financial sector participants (% of the GDP)**

	2017	2018	2019	2020	2021
<b>Market capitalisation of the stock exchange market</b>	<b>23.0</b>	<b>24.3</b>	<b>23.2</b>	<b>23.6</b>	<b>23.2</b>
Non-banking investment firms	14.4	19.0	17.2	16.5	6.2
Management companies and AIFMs	1.8	1.8	1.9	2.0	2.4
CIS and other collective investment undertakings*	1.4	1.4	1.4	1.5	2.1
SPICs	1.5	1.5	1.5	1.6	1.4
(Re)insurance companies	7.4	7.5	7.7	8.3	8.5
SPFs	12.4	12.2	13.1	14.5	14.8
<b>Participants in the non-banking financial sector</b>	<b>38.9</b>	<b>43.4</b>	<b>42.7</b>	<b>44.3</b>	<b>35.4</b>

Notes: \* Includes balance sheet assets of CISs, AIFs, SWFs and NID.

Source: BSE, FSC, NSI.

The depth of financial intermediation in the non-banking financial sector measured through market capitalisation on Bulgarian Stock Exchange AD as a share of the GDP decreased slightly to 23.2% at the end of 2021 from 23.6% at the end of 2020.

The market capitalisation of the BSE increased by 8.6% on an annual basis and reached BGN 30.8 billion at the end of the year. The market capitalisation of the Main market, which reached BGN 11.6 billion at the end of the year, had a positive contribution of 9.9 p.p., while the market capitalisation of the alternative market, which reached BGN 18.9 billion at the end of 2020, had growth-limiting contribution of -2.4 p.p. The market capitalisation of the BEAM growth market, which is BGN 278.7 million, also contributes 1 p.p. in the general change. By types of segments of the three markets organised by BSE AD, the highest contribution to this increase (8.3 p.p.) was made by the segment "Standard Shares", whose market capitalisation reached follow, whose market capitalisation is BGN 9.0 billion in the end of the year. The SPIC segment on the Main market and the Premium shares segment follows, which contribute positively by 0.9 and 0.7 p.p. each in the total increase in the capitalisation of the three markets. The market capitalisation of the alternative market share trading segment decreased by BGN 19.0 billion as of the end of 2020 to BGN 18.6 billion at the end of 2021 and has a negative contribution of -1.7 p.p. in the growth of the market capitalisation of three markets organised by the stock exchange. The

main share in the segment is occupied by the shares of one public company, whose market capitalisation at the end of the year has 88.8% relative share in the segment. The capitalisation of the Alternative Market's SCI segment also has a growth-limiting contribution of -0.7 p.p.

The dynamics of stock market indices in 2021 is influenced by the recovery of capital markets from the impact of the spread of the COVID-19 pandemic. As at 31.12.2020, the main SOFIX index marked growth of 42.04% compared to its level at the end of 2020, reaching 635.68 points. The broad BGBX40 index marked an increase of 41.72% on an annual basis to 143.68 points, while the weighted BGTR30 increased by 36.82% during the year to 682.96 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 19.09% on an annual basis to 163.98 points.

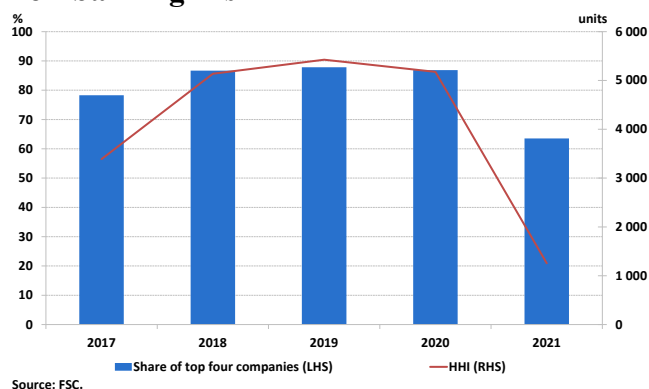
Expressed as share of the GDP, the assets of participants in the non-banking sector amounted to 35.4%, the largest among which was the share of assets of supplementary pension insurance funds (14.8%), followed by assets of non-banking Ifs (6.2%) and the share of the assets of the (re)insurance segment, which were 8.5% of the GDP. Assets managed by MCs and AIFMs amounted to 2.0% of the GDP, and those of SPICs, CISs, and other collective investment undertakings– to 1.4% and 2.0% of the GDP, respectively.

In 2021, the development of the non-banking financial sector maintained the market environment in individual segments. Non-life insurance companies, collective investment undertakings and management companies are characterized by strong competition, while a moderate competitive environment is observed in pension insurance companies and the segment of services provided by non-banking investment firms. The life insurance market is characterized by high market concentration. 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.

Concentration for non-banking investment firms measured on client assets basis is moderate. By the end of 2021, the largest four investment firms held 63.5% of the total amount of all client assets,<sup>42</sup> the share of the first investment firm being 24.0%. For the remaining investment firms the average share of the client assets held was 2.2%.

The Herfindahl-Hirschman Index (HHI)<sup>43</sup> on the market of non-banking investment firms, calculated on the basis of client assets, decreased in 2021 by 3,919 units to 1,257 units, which changes the concentration on the market for services provided by non-banking investment firms from highly concentrated to moderately concentrated.

**Graph 51. Concentration on the market of non-banking IFs**



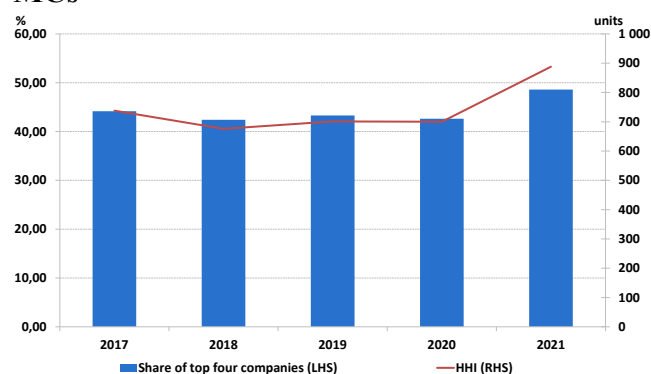
The market concentration of the services offered by the management companies in 2021 increased compared to the previous year. The four management companies with the largest relative share in the managed assets hold 48.6% of the total amount<sup>44</sup>. The value of the Herfindahl-Hirschman

<sup>42</sup>IF Elana Trading AD, IF First Financial Brokerage House EOOD, IF Euro-Finance AD and IF Sofia International Securities AD.

<sup>43</sup>The 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

Index (HHI) on the market of management companies, calculated on the basis of managed assets at the end of 2021, increased by 188 units to the level of 888 units in the direction of 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**

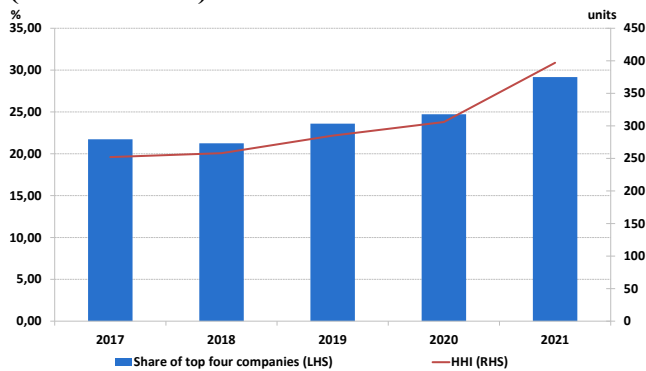


The market for collective investment schemes is defined as highly competitive. The trend of gradual increase of the concentration in the segment continues in 2021, and an increase is observed both in relation to the Herfindahl-Hirschman index (HHI) and in the share of the first four funds in the total assets. Despite these dynamics the market in this segment remains highly competitive. The change in the Herfindahl-Hirschman Index (HHI) is 91 units, increasing to 397 units at the end of 2021 compared to 306 units in 2020, while the share of the first four funds<sup>45</sup> increases respectively to 29.2% from 24.7% at the end of 2020.

moderately competitive environment, and more than 1800 units – the market is characterized by strong concentration.  
<sup>44</sup>KBC Asset Management NV, DV Asset Management EAD, DSK Asset Management AD and Raiffeisen Asset Management EAD.

<sup>45</sup>MF UBB Platinum Bonds, MF DSK Standard, MF Raiffeisen Conservative Fund Bulgaria, MF DSK Euro Active.

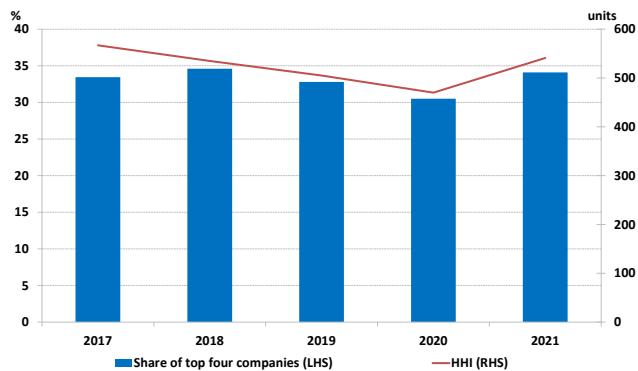
**Graph 53. Concentration on the market of CISs (MF and ETF)**



Source: FSC.

The segment of special purpose investment companies remained highly competitive at a Herfindal-Hirschman index (HHI) of 541 units, which was 71 over the value of the 2020 indicator. Similar dynamics was observed in the change in the share of the first four companies, which increased from 30.5% in the previous year<sup>46</sup> to 34.1% in 2021, the indicator remained within a strong competitive environment.

**Graph 54. Concentration on the market of SPICs**



Source: FSC.

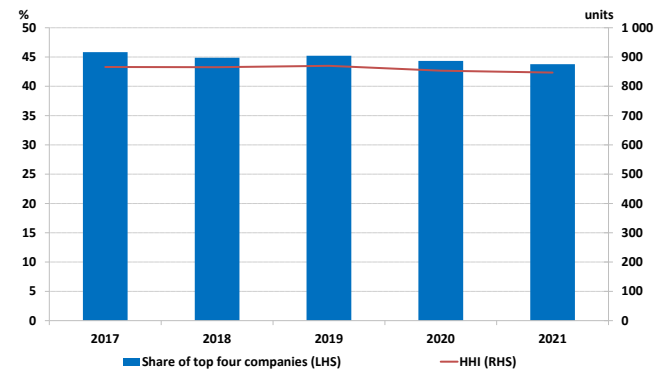
The market of non-life insurance was determined as highly competitive, with the HHI index value decreasing by 6 units in 2021 compared to the previous year and by the end of December 2021 reached 847 units, which is an

<sup>46</sup> Advance Terrafund SPIC, Real Estate Fund Bulgaria SPIC, Capital Management SPIC and Balkan and Sea Properties SPIC.

<sup>47</sup>These were Insurance Company Lev Ins AD, Bulstrad Vienna Insurance Group AD Insurance Company, and DZI - Non-life Insurance EAD and Insurance Company Euroins AD.

indicator for decreased competition. The market share of top four non-life insurance companies, measured in terms of assets,<sup>47</sup> decreased from 44.3% at the end of 2020 to 43.8% at the end of 2021.

**Graph 55. Concentration on the non-life insurance market**

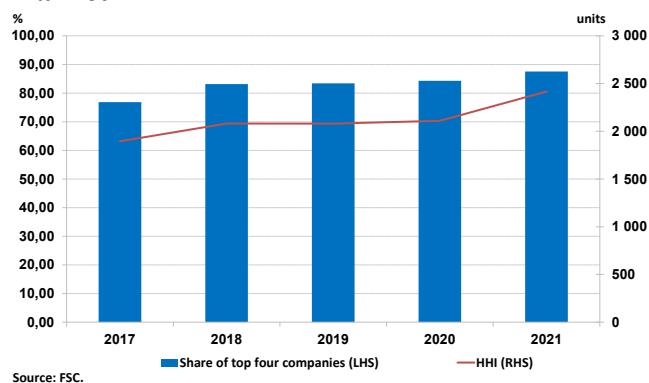


Source: FSC.

In 2021, the life insurance market continued to be characterized by a highly concentrated competitive environment, which is deepening as a result of the transformation by merging one life insurance company into another in the second quarter of 2020. At the end of 2021, the curve of the Herfindahl - Hirschman Index (HHI) scored 2,417 units, which is 307 units compared to the previous year in the direction of increasing concentration in the sector. The combined market share of the four life insurance companies with the largest amount of assets<sup>48</sup> reached a historically highest level and at the end of the fourth quarter of 2021 reached a level of 87.6%.

<sup>48</sup> DZI-Life Insurance EAD, IC Allianz Bulgaria-Life AD, Grave Bulgaria Life Insurance EAD and IC Bulstrad Vienna Insurance Group AD.

**Graph 56. Concentration on the life insurance market**

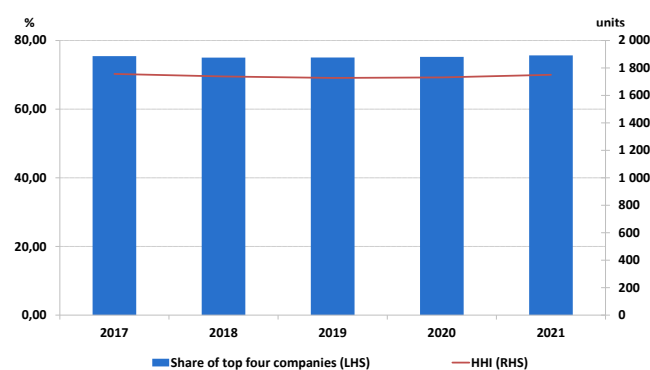


Source: FSC.

By the end of 2021, the share of the first four companies<sup>49</sup> on the market of pension insurance services according to their balance sheet assets grew to 75.7%. compared to 75.2% for the

previous year. The HHI increased significantly by 19 units compared to the end of 2020 and reached 1,750 units, indicating higher concentration over the past twelve months.

**Graph 57 . Concentration of the social insurance market**



Source: FSC.

## 2.1. Review of risks and main market trends

**Global economic activity accelerated in 2021** as a result of economies opening up. The main factor having a negative impact is the ongoing COVID-19 pandemic, which has affected socially and economically the whole world. Geopolitical tensions between the US and the EU on the one hand and Russia on the other have risen since the build-up of Russian troops on the border with Ukraine in late 2021. Despite the prolonged pandemic, the lower infectiousness of the Omicron strain and the easing of quarantine measures have helped to increase global economic activity and increase external demand. **In 2021, policies to stimulate the leading central banks are still ongoing.**

The development of the international capital markets in 2021 is characterized by upward dynamics, which is supported by the stimulus measures from the governments and the lower incidence of COVID-19. 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 transition.

The measures taken to limit the consequences of the spread of the COVID-19 pandemic in 2021, as well as the new Omicron variant that appeared, had a positive effect on increasing economic activity in Bulgaria. In 2021, the Bulgarian economy reports a growth of 4.2%, which almost compensates for the fall of -4.4% in the previous year. By the end of 2021, the current account deficit decreased by -0.4 p.p. compared to 2020 and reaches EUR -271.4 million. The volume of foreign direct investment in Bulgaria amounts to EUR 2256.1 million, which is EUR-1,731.4 million less than the previous year. In 2021, the country's gross external debt decreased to 5.4% on an annual basis, reaching EUR 42.0 billion at the end of the year or 61.8% of GDP. Banks' credit exposures to the private non-financial sector are growing, together with households reaching an average annual growth for the year of 6.4% compared

<sup>49</sup>PIC Doverie AD, PIC Allianz Bulgaria AD, PIC DSK – Rodina AD and PIC Saglasie AD.



to 5.2% in 2020. The average annual value of consumer price inflation is 2.9%, starting to increase significantly since the second quarter 2021, and by December 2021 it reaches 6.6% on an annual basis. The housing price index almost doubled its rate of change on an annual basis, from 4.6% on average for 2020 reaching 8.7% in 2021. The trend in rental prices follows the same trend, the index increased to 2.8% in 2021 compared to 2.0% for 2020

The banking sector continues to be stable, profitable, with high levels of capital adequacy and liquidity, despite the global spread of the Omicron variant and as a result of the economic situation in the country at the end of 2021.

In search of profitability in conditions of global uncertainty and long-term low interest rates, ***institutional investors maintain an interest in alternative investments***, and the amount of the assets managed by management companies/alternative investment fund managers<sup>50</sup> increased by 35.8% on an annual basis and reached BGN 3.2 billion by the end of 2021. The dynamics of the market indices of the Bulgarian Stock Exchange is influenced by the recovery from the impact of the COVID-19 pandemic on the capital markets. Towards the end of the period the leading index - SOFIX marked a growth of 42.0% to 635.68 points, the broad BGBX40 increased by 41.7% to 143.68 points, while the weighted BGTR30 ended the year with an increase of 36.8% to 682.96 points. The sectoral BGREIT, which recorded an annual growth of 19.1%, ended the year at 163.98 points. The turnover on the regulated market of BSE AD<sup>51</sup> marks an annual growth of 106% or BGN 421.5 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 59.9% of the total turnover on the Main market during the year. The market capitalisation of the stock exchange increased by 8.6% on an annual basis, the contribution of the Main market was 10.0 p.p., followed by the contribution of the Beam growth market of 1.0 p.p. while the contribution of the alternative market limits the growth with a negative contribution of -2.4 p.p. Taking advantage of the still low interest rates, corporate debt with a nominal value of BGN 317.2 million was issued on the stock exchange during the year.

A persistent low interest rate environment remains relevant for 2021, which could cause a search for yield behaviour for insurers either tilting to illiquid or riskier assets. The financial markets performance positively affected insurers' profitability for 2021, 'non-life and life written premiums increased by 8.2% and 9.3% year-on-year basis, respectively. In addition, the sector's solvency remained solid and increased compared to 2020. Life insurers improved their Solvency Capital Requirement (SCR) ratio in the second quarter of 2021, with the median for life insurers increasing from 253% in the first quarter of 2021 to 293% in the second quarter of 2021, and in the second half of the year it decreased to 224% for non-life, however, the median SCR ratio remained stable in 2021, reaching 157% at the end of the year. The prolonged period of ultra-low bond yields further negatively affects the prospects for profitability of insurers' investment portfolios due to the risk of reinvestment. In addition, the risk of deterioration in corporate bond ratings may affect the market value of corporate bonds held by insurers. The financial markets volatility also has a negative effect on the return on investment of insurers.

In the environment of low interest rates the investments of all insurers in Bulgaria (on the basis of the information from the quarterly reports according to Ordinance No. 53 at the end of the fourth

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<sup>50</sup> This amount includes the assets managed by MCs/AIFMs of clients under trust management of portfolios and managed assets of CIS.

<sup>51</sup> Includes turnover on Main Market, Alternative Market, BEAM Growth Market and BSE International.

quarter of 2021, which included the data for all insurers with headquarters in the of Republic of Bulgaria) grew on an annual basis by 12.0% at the end of the fourth quarter of 2021. They maintain their investment interest in debt securities, which are dominated by Bulgarian government securities, reaching a historically high absolute amount, and their share of the total value of investments at non-life insurance companies decreased to 60.5%, and life insurers increased to 73.3%. Non-life and life insurance companies increase their exposures in shares and other variable-income securities, their share in the investment portfolio increases up to 18.4% for non-life insurance and decreases to 11.4% for life insurers at the end of 2021. The trend of recent years to reduce exposures in bank deposits of life insurers to historically low levels is deepening, as their share decreases to 0.7% of their investments, while in non-life insurance companies they increase their share and reach 5.6% of investments. Investments in land and buildings of non-life insurance companies are also declining, while those of life insurers have the opposite trend and are rising.

Although the insurance sector is adapting to the environment with prolonged 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 aspect. Investments in Unit-linked life insurance policies, where the investment risk under this type of insurance is borne by the insured, continue to grow, reporting a change of 76.3% in the fourth quarter of 2021 and reaching 28.1 % of the value of all assets of life insurers compared to 20.4% at the end of 2020.

The risk, in terms of the profitability of the insurer, remains moderate with a tendency to increase, as in the fourth quarter of 2021 the return on assets, capital and investment of non-life and life insurance companies increased. The solvency capital requirement of life insurers decreased on a quarterly basis to 223.8%, and for non-life insurance companies the indicator, which is at a relatively lower level, increased from 155.3% to 156.5% on a quarterly basis.

Another vulnerability for the insurance sector could be the possible contagion through interconnectedness with banks.

Cyber risk has become one of the most important risks for the European insurance sector with increasing momentum, but its understanding remains limited and data collection and modelling of cyber risk needs to be improved. The risks related to digitalisation are also expected to increase. The number of cyber-attacks is increasing, affecting banks and other types of institutions, and although the impact is difficult to estimate, there are fears that there will be more incidents affecting insurers. At the same time, cyber insurance demand will grow, providing new business opportunities for insurers.

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, whose relative share significantly slowed down its growth rate and at the end of 2021 amounted to 52.0% of the total investment portfolio of SPFs. The share of investments in bonds other than government securities also decreased slightly compared to the previous year and decreased to the level of 8.7% of the total investment portfolio. Due to the higher yield, despite the riskier nature, the value of pension funds' investments in shares, rights and units increased to 37.4% 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 0.3% of all investments at the end of the year. The higher yield achieved

on foreign markets, as well as the variety of financial instruments, leads to an increase in the share of investments of pension funds in financial instruments issued by issuers outside the Republic of Bulgaria, respectively to 76.5% of their investment portfolio at the end of 2021 compared to 70.8% at the end of 2020. At the end of 2021, the annual profitability of all types of SPFs was positive as a result of the dynamics of external capital markets, despite the rapid spread of the COVID-19 pandemic in Bulgaria and Europe. From the beginning of 2021, the annual yield of all types of SPFs began to rise, remained positive throughout the year, and at the end marked a slight decline.

## 2.2. Analysis of the participants on the capital market

The market capitalisation of the Bulgarian Stock Exchange AD grew by 8.6% in 2021 and amounted to BGN 30.8 billion at the end of the year, which represents 23.2% of GDP (compared to 23.6% in 2020). Financial and insurance activities took first place in terms of turnover during the year with BGN 361.8 million. The assets of non-banking investment firms based in the Republic of Bulgaria reported a decrease of -58.2% on an annual basis and at the end of 2021 amounted to BGN 8.2 billion. In 2021, the assets of special purpose investment companies increased by 2.3% on an annual basis and reached BGN 1.9 billion. The assets of collective investment schemes and other collective investment undertakings increased by a total of 53.5% compared to the previous year, and at the end of 2021, the assets amounted to BGN 2.7 billion. Total assets managed by management companies/alternative investment fund managers increased by 30.1% and reached BGN 3.2 billion by the end of the year.

### 2.2.1. *Investment firms* <sup>53</sup>

In 2021, the number of investment firms (IFs) operating on the territory of the Republic of Bulgaria is 59, 20 of which are banks and 3 bank investment firms operating on the territory of the country through a branch. The number of non-banking investment firms based in the Republic of Bulgaria is 36<sup>54</sup>, and the number of non-banking investment firms operating on the territory of the country through a branch is 3 at the end of 2021.

Depending on the authorisations issued, non-banking IFs were divided into three groups: (1) IFs with a full licence<sup>55</sup>, for which the required capital is BGN 1,500,000, (2) IFs with a partial licence<sup>56</sup>, for which the required capital is BGN 250,000 and (3) IFs with a small licence<sup>57</sup>, for which the required capital is BGN 100,000. At the end of 2021, 18 IFs with a full licence and 18 companies with a partial licence were listed in the register of FSC. In 2021, the licence to operate as a non-banking investment intermediary was revoked at

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<sup>53</sup>The analysis covers non-banking investment firms based in the Republic of Bulgaria, unless explicitly stated otherwise.

<sup>54</sup> The number of non-banking investment firms did not include companies whose license had been revoked as at 31.12.2021.

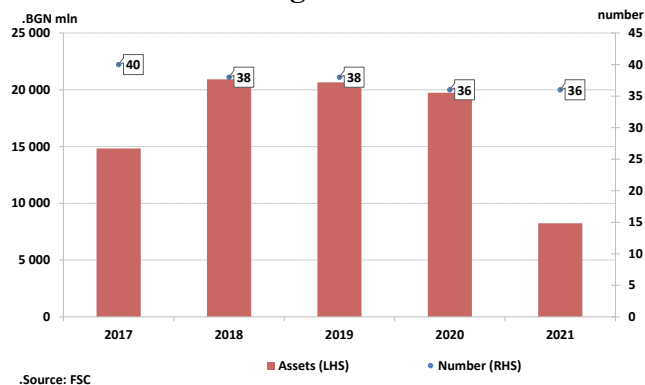
<sup>55</sup> They may carry out all the investment services and activities listed in Art. 6, para. 2 of the Markets in Financial Instruments Act (MFIA).

<sup>56</sup> 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.

<sup>57</sup> 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.

the company's request and one licence to carry out activities as an investment intermediary was issued to another company.

**Graph 58. Dynamics in the number and assets of non-banking IFs**



The sum of total assets<sup>58</sup> of non-banking investment firms at the end of 2021 was BGN 8.2 billion, which is a decrease of -58.2% compared to the end of 2020. Of these, client assets amounted to BGN 8.0 billion. Contribution to the annual rate of change in customer assets of -65.4 p.p. non-banking investment firms with a partial licence have, and those with a full licence have a positive contribution limiting the decline of 7.1 p.p. The reason for these dynamics is a decrease of BGN -13.5 billion of the client assets (financial instruments) of one IF with a partial licence. Excluding this single factor, the assets of the rest of the non-banking IFs with a partial licence grew more than two times over on an annual basis. In 2021, the number of non-banking investment firms with direct foreign participation from the EU is kept compared to the previous year. The number of investment firms with indirect foreign participation from the EU is one at the end of the year. In terms of foreign participants from third countries, there is 1 IF with a direct participation and 4 IFs with an indirect foreign participation from third countries.

<sup>58</sup> The amount of the balance sheet assets included the amount of the contingent assets.

**Table 45. Number of IFs with foreign ownership**

	2020		2021	
	Direct	Indirect	Direct	Indirect
EU ownership	2	5	2	1
Third countries' ownership	1	1	1	4

Source: FSC.

The amount of balance sheet assets of non-banking investment firms with a full licence increased by 32.9% on an annual basis - from BGN 4.3 billion at the end of 2020 to BGN 5.7 billion at the end of 2021, while the assets of non-banking investment firms with a partial licence decreased by -83.4% during the year to BGN 2.6 billion, compared to BGN 15.5 billion at the end of 2020.

**Table 46. Assets, initial capital and equity of non-banking IFs**

	2017	2018	2019	2020	2021
<b>IFs with a small licence</b>					
assets	0,3	0,3	0,3	0,2	0,0
initial capital	0,5	0,3	0,1	0,1	0,0
equity	0,2	0,3	0,3	0,2	0,0
<b>IFs with a partial licence</b>					
assets	9 341,2	16 169,2	16 682,9	15 564,0	2 561,2
initial capital	9,3	14,8	18,6	13,0	13,0
equity	17,7	23,6	28,2	23,6	25,7
<b>IFs with a full licence</b>					
assets	5 493,6	4 750,4	3 967,9	4 175,5	5 683,4
initial capital	65,8	62,4	56,8	53,1	53,6
equity	111,2	144,7	143,2	119,4	156,3
<b>Total IFs</b>					
assets	14 835,0	20 919,8	20 651,1	19 739,6	8 244,6
initial capital	75,5	77,4	75,4	66,2	66,6
equity	129,1	168,5	171,7	143,2	182,0

Note: Data are in million BGN, unless stated otherwise.  
Source: FSC.

The initial capital of non-banking investment firms increased by 0.6% on an annual basis to BGN 66.6 million by the end of 2021. The equity of the investment firms increased by 27.1% on an annual basis to BGN 182.0 million at the end of 2021. The main contribution to the annual rate of change in equity is the positive financial result in the amount of BGN 45.5 million reported by investment firms during the year.

The market value of the trade and investment portfolio of non-banking investment firms at the end of 2021 is BGN 56.0 million. 13 non-banking investment firms with a market value of BGN 35.3 million have formed a trading portfolio at the end

of the year. By the end of 2021, 28 investment firms have formed an investment portfolio with a market value of BGN 20.7 million.

By the end of 2021, 16 non-banking investment firms are performing trust management. The market value of the securities provided for trust management was BGN 97.9 million, and the cash at the end of the period was BGN 3.6 million.

The number of transactions concluded by investment firms in 2021 on all BSE markets increased by 30.6% on an annual basis to 86.0 thousand transactions,<sup>59</sup> and the traded lots increased by 18.8% on an annual basis to 322.0 million lots. The trading activity of the stock exchange members on the regulated market of the BSE, measured by the turnover, increased by 104.7% on an annual basis to BGN 814.0 million in 2021. The first four investment firms by commercial activity have a share of 44.5% of the total turnover realized on the BSE regulated market during the year.

**Table 47. Number of transactions, turnover, and volume (lots) of IFs (banking and non-banking) on BSE's regulated market**

	2017	2018	2019	2020	2021
Number of transactions	79 629	54 341	44 167	61 173	85 991
Turnover (BGN mln.)	706	550	334	397	814
Volume (mln. lots)	401	282	181	322	382

Source: BSE, FSC.

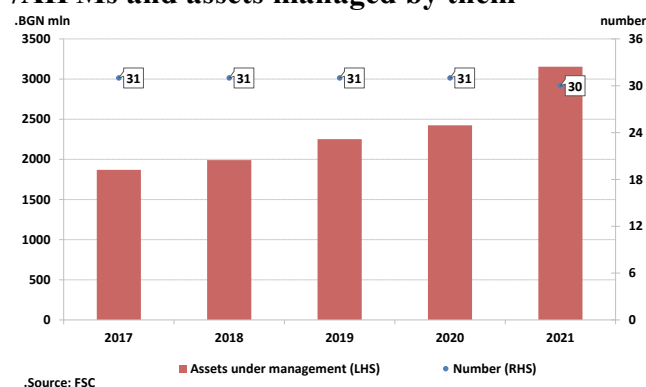
### 2.2.2. Collective investment undertakings

By the end of 2021, the number of management companies (MCs) is 30, of which 8 are also alternative investment fund managers (AIFM) as well as 1 branch of a MC.<sup>60</sup> The total number of registered AIFMs is 20 and one AIFM was authorised to operate as such. At the end of the year the number of collective investment

schemes reached 117 at the end of the year. Of these, 105 are mutual funds, one of which manages 10 sub-funds and 12 are exchange-traded funds (ETFs). The number of the alternative investment funds (AIFs) is 27, of which 13 are sovereign wealth funds (SWFs).

The amount of assets managed by MCs/AIFMs<sup>61</sup> increased in absolute terms by BGN 728.8 million and by the end of the year it reached BGN 3.2 billion,<sup>62</sup> which is 30.1% annual growth. Of them, BGN 548.1 million are managed assets of clients in trust portfolio management and BGN 2.6 billion are assets under management of collective investment schemes.

**Graph 59. Dynamics in the number of MCs /AIFMs and assets managed by them**



.Source: FSC

As of 31.12.2021, the number of collective investment schemes (CISs) is 117, with the amount of their balance sheet assets reaching BGN 2,454 billion (of which NAV are BGN 2,446.7 million), or the increase of the balance sheet assets is 40.2% compared to the previous year.

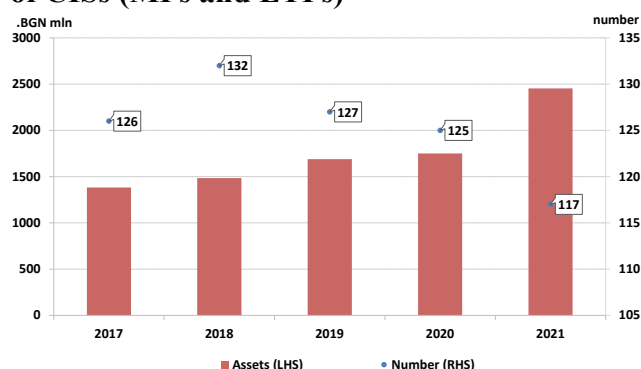
<sup>59</sup> Data on the commercial activity of investment firm Tradegate AD Berlin, which is a supervised entity of another EU member state, are not included.

<sup>60</sup> Branch of KBC Asset Management NV, Belgium.

<sup>61</sup> This amount includes managed assets of clients in trust portfolio management and BGN 2.6 billion are managed assets of collective investment schemes.

<sup>62</sup> This amount includes the assets managed by the branch of KBC Asset Management NV, Belgium.

**Graph 60. Dynamics in the number and assets of CISs (MFs and ETFs)**



.Source: FSC

At the end of 2021, 27 alternative investment funds were listed in the registers of FSC (incl. AIF, SWF and NIC), with total assets of BGN 278.9 million compared to BGN 29.4 million the previous year.

In 2021, the number of mutual funds of foreign collective investment schemes increased by 7 and at the end of 2021 they were 56.

**Table 48. Dynamics of the number of foreign CISs**

	2017	2018	2019	2020	2021
Mutual funds - foreign CISs	26	44	46	49	56

Source: FSC.

The value of the assets accumulated by CISs (MFs and ETFs) in 2021 reached BGN 2.5 billion, marking a growth of 40.2%. The largest contribution to the growth of assets was brought by the balance sheet item “Financial assets and instruments”, which accelerated its growth to 47.0% in 2021 and reached BGN 2.3 billion. The items in the balance sheet that have the largest positive contribution to the annual rate of change are Shares (37.5 p.p.), which reached BGN 1.4 billion, followed by CIS units with the amount of BGN 241.3 million and contribution of 4.5 p.p. The balance sheet item Cash decreased to BGN 174.6 million for the year and had -2.1 p.p. negative contribution to the annual rate of change in assets.

**Table 49. Dynamics of the CIS assets (MFs and ETFs)**

	2017	2018	2019	2020	2021
<b>Cash</b>	<b>376,2</b>	<b>346,6</b>	<b>209,6</b>	<b>171,7</b>	<b>148,8</b>
Term deposits	167,6	150,9	96,9	58,6	36,5
<b>Financial assets and instruments, incl.</b>	<b>998,8</b>	<b>1 121,7</b>	<b>1 465,3</b>	<b>1 562,6</b>	<b>2 296,3</b>
Shares	536,6	598,2	704,7	774,3	1 429,9
Rights	0,0	0,0	0,0	0,0	0,0
Debt securities	307,7	368,8	587,4	611,8	603,8
Other		6,1	10,8	10,6	17,8
Money Market Instruments	3,5	0,0	0,0	0,0	0,0
Shares of CIS	132,8	144,9	159,1	163,4	241,3
Derivatives	1,0	0,3	0,5	0,3	0,7
Other financial instruments	8,2	3,4	2,9	2,0	2,7
<b>Non-financial assets (receivables)</b>	<b>12,7</b>	<b>15,9</b>	<b>14,2</b>	<b>16,2</b>	<b>8,9</b>
Other	6,5	0,0	0,0	0,0	0,1
<b>TOTAL</b>	<b>1 394,2</b>	<b>1 484,2</b>	<b>1 689,2</b>	<b>1 750,5</b>	<b>2 454,0</b>

Note: Data are in million BGN, unless stated otherwise.  
Source: FSC.

In 2021, the relative share of the Cash balance sheet item in the total structure of assets continued to decline from 9.8% in 2020 to 6.1% at the end of the year. There was an increase in the share of the balance sheet item Financial assets and instruments, which increased from 89.3% to 93.6% at the end of the year. The main contribution to this dynamics is made by the balance sheet item Shares, whose share reached 58.3% by the end of 2021, followed by the balance sheet item Debt securities, with a relative share of 24.6%. The share of the CIS Units item increased slightly to 9.8% in the structure of assets. The Non-financial assets item, most of which are receivables, decreased both in absolute terms and as a relative share from 0.9% to 0.4% in the general structure of CIS assets.

**Table 50. Relative structure of CIS assets (MFs and ETFs)**

	2017	2018	2019	2020	2021
<b>Cash</b>	<b>27,0</b>	<b>23,2</b>	<b>12,4</b>	<b>9,8</b>	<b>6,1</b>
Term deposits	12,0	10,1	5,7	3,3	1,5
<b>Financial assets and instruments, incl.</b>	<b>71,6</b>	<b>75,7</b>	<b>86,7</b>	<b>89,3</b>	<b>93,6</b>
Shares	38,5	40,7	41,7	44,2	58,3
Rights	0,0	0,0	0,0	0,0	0,0
Debt securities	22,1	24,7	34,8	35,0	24,6
Other				0,6	0,7
Money Market Instruments	9,5	9,7	9,4	9,3	9,8
Shares of CIS	0,2	0,0	0,0	0,0	0,0
Derivatives	0,1	0,0	0,0	0,0	0,0
Other financial instruments	0,6	0,6	0,2	0,1	0,1
<b>Non-financial assets (receivables)</b>	<b>0,9</b>	<b>0,5</b>	<b>0,8</b>	<b>0,9</b>	<b>0,4</b>
Other	0,5	0,6	0,0	0,0	0,0
<b>TOTAL</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>

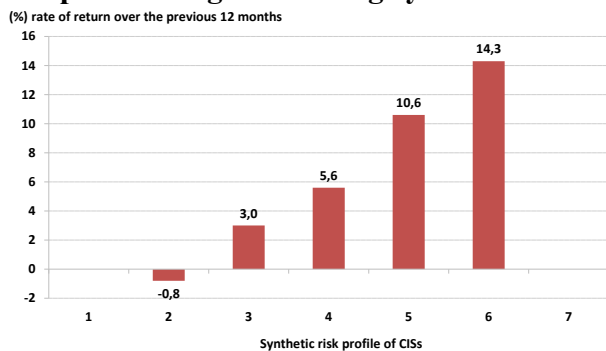
Note: Data are in percentages (%), unless stated otherwise.

Source: FSC.

In 2021, collective investment schemes continue to be the preferred investment alternative in the context of global uncertainty and continued low interest rates and search for higher yield by

investors. For the last 12 months, the weighted average yield<sup>63</sup>, realized by all groups of risk profiles is positive (except for funds with risk profile 2). At end of the year the highest weighted average yield for the previous 12 months was realized by the high risk profile 6 funds (14.3%) (scale from 1 to 7),<sup>64</sup> followed by the funds in category profile 5 (10.6%). Mutual funds with risk profiles of categories 3 and 4 report 3.0% and 5.6% returns, respectively, for the last 12 months. The realized return on CIS with risk profile 2 (whose investments are mainly in corporate and government securities) has been negative (-0.8%) for the last twelve months.

**Graph 61. Weighted average yield of CISs**



Source: FSC.

### 2.2.3. Special Purpose Investment Companies

At the end of 2021, the total number of licensed special purpose investment companies (SPICs) is 53<sup>65</sup>, of which 44 securitize real estate and agricultural land, and the remaining 9 securitize receivables. The total value of the assets of all special purpose vehicles increased by 2.3% compared to the previous year 2020. The amount of assets of these companies at the end of 2021 amounted to BGN 1.9 billion or 1.4% of GDP. The contribution of the two categories of SPICs in the

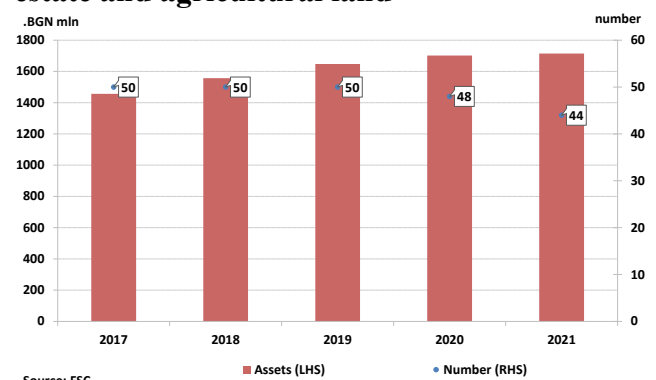
<sup>63</sup>The return is weighted by the value of the net assets of the individual CISs with the same risk profile.

<sup>64</sup> According to Regulation 583/2010 /EU, the scale (1 to 7) is a synthetic code for the risk profile of CIISS, with the degree of risk increasing in ascending order.

total growth of assets is positive, as for the securitisers in real estate it is 0.7 p.p., and that of the SPICs for securitisation receivables is 1.6 p.p.

The amount of assets of SPICs securitising real estate and agricultural land increased by 0.8% in 2021 and by the end of the year reached BGN 1.7 billion. At the same time, the number of companies in the segment decreased to 44 SPICs compared to the previous year.

**Graph 62. Dynamics in the number and assets of SPICs, performing securitisation of real estate and agricultural land**



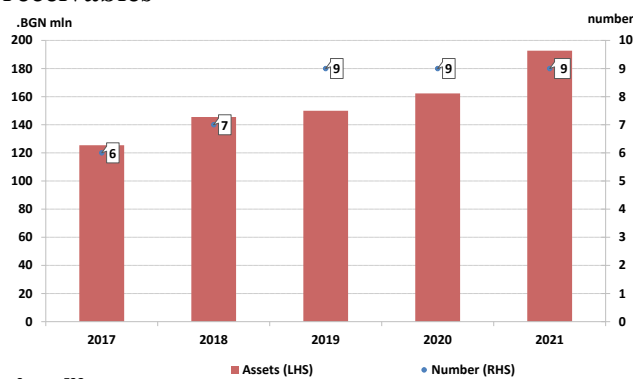
Source: FSC

In 2021, the amount of accumulated assets of SPICs securitising receivables increased by 18.7% compared to 2020 and by the end of the year reached BGN 192.7 million. The number of companies in the segment remains at 9 SPICs.

**Graph 63. Dynamics in the number and assets of SPICs, performing securitisation of**

<sup>65</sup> The number of SPICs presented did not include companies the license of which had been revoked as at 31.12.2021.

## receivables



Source: FSC

The balance sheet assets of SPICs carrying out the securitisation of real estate and agricultural land grew by 0.8% on an annual basis and reached BGN 1.7 billion at the end of 2021. The change in the main item "Investment properties" is in a negative direction, and their balance sheet value reached BGN 1.2 billion with a growth-limiting contribution of -2.0 p.p. The balance sheet value of the Financial assets item decreased to BGN 52.0 million and limited the change in assets by -1.5 p.p. An opposite dynamic is observed in Cash and other assets, which at the end of the year reached BGN 284.4 million and contributed a total of 4.6 p.p. in asset growth. The Receivables item has a growth-limiting negative contribution of -0.4 p.p., decreasing from BGN 181.8 million at the end of 2020 to BGN 174.8 million at the end of 2021.

**Table 51. Assets of SPICs performing securitisation of real estates and agricultural land**

	2017	2018	2019	2020	2021
Investment properties	1 099,6	1 117,9	1 227,6	1 236,6	1 203,3
Financial assets	2,5	2,4	7,6	77,6	52,0
Cash	51,6	80,6	74,3	82,2	96,5
Receivables	155,4	251,0	191,4	181,8	174,8
Other	147,6	104,9	146,8	123,4	187,9
<b>TOTAL</b>	<b>1 456,7</b>	<b>1 556,8</b>	<b>1 647,6</b>	<b>1 701,6</b>	<b>1 714,5</b>

Note: Data are in million BGN, unless stated otherwise.  
Source: FSC.

In 2021, the relative structure of the assets of SPICs securitising real estate and agricultural land remained relatively stable compared to the previous reporting period. The relative share of investment properties decreased from 72.7% at the end of 2020 to 70.2% at the end of 2021. The share

of the balance sheet item Financial assets decreased from 4.5% to 3.0% in the total structure of assets. The highest growth was observed in the relative share of cash and other assets in the relative structure of assets, which increased to 5.6% and 11.0% respectively at the end of 2021.

**Table 52. Relative structure of the assets of SPICs, performing securitisation of real estates and agricultural land**

	2017	2018	2019	2020	2021
Investment properties	75,5	71,8	74,5	72,7	70,2
Financial assets	0,2	0,2	0,5	4,5	3,0
Cash	3,5	5,2	4,5	4,8	5,6
Receivables	10,7	16,1	11,6	10,7	10,2
Other	10,1	6,7	8,9	7,3	11,0
<b>TOTAL</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>

Note: Data are in percentages (%), unless stated otherwise.  
Source: FSC.

The assets of SPICs performing securitisation of receivables increased by 18.7% in 2021, reaching BGN 192.7 million at the end of the period. The balance sheet value of the main item Receivables (up to 1 year) decreased, reaching BGN 106.8 million at the end of the year, compared to BGN 134.5 million at the end of the previous year. The balance sheet value of the Receivables (over 1 year) item also decreased during the period, reaching BGN 7.3 million. The main contribution to the change in assets of the companies from the segment is the increase in financial assets, the balance sheet value of which reached BGN 74.4 million at the end of the year.

**Table 53. Assets of SPICs performing securitisation of receivables**

	2017	2018	2019	2020	2021
Financial assets	6,2	6,2	6,2	12,4	74,4
Cash	1,4	1,1	1,9	2,2	3,8
Receivables (up to 1 year)	108,9	106,2	117,9	134,5	106,8
Receivables (above 1 year)	8,9	31,9	24,0	12,7	7,3
Other	0,0	0,0	0,0	0,5	0,4
<b>TOTAL</b>	<b>125,4</b>	<b>145,5</b>	<b>150,0</b>	<b>162,3</b>	<b>192,7</b>

Note: Data are in million BGN, unless stated otherwise.  
Source: FSC.

In 2021, the relative structure of the assets of SPICs securitising receivables changes, and due to the reported decline in receivables up to 1 year, their share falls to 55.4% against 82.9% in 2020. Receivables over 1 year also decrease their relative share during the period, reaching 3.8%.



The biggest change was marked by financial assets, which grew from 7.6% at the end of 2020 to 38.6% at the end of the year.

**Table 54. Relative structure of the assets of SPICs performing securitisation of receivables**

	2017	2018	2019	2020	2021
Financial assets	5,0	4,3	4,2	7,6	38,6
Cash	1,1	0,8	1,3	1,4	2,0
Receivables (up to 1 year)	86,8	73,0	78,6	82,9	55,4
Receivables (above 1 year)	7,1	21,9	16,0	7,8	3,8
Other	0,0	0,0	0,0	0,3	0,2
<b>TOTAL</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>

Note: Data are in percentages (%), unless stated otherwise.  
Source: FSC.

As of 31.12.2021, the SPICs initial capital amounted to BGN 526.4 million, which is a decrease of -9.7% compared to the previous year. The main reason for this decrease is the withdrawal during the year of the licence to operate of five companies carrying out securitisation of real estate and agricultural land, which dominate the segment. The amount of the initial capital of SPICs securitising receivables remains unchanged compared to the previous year in the amount of BGN 13.1 million. The total equity capital of the companies from the SPIC segment also decreased during the year due to a decrease in their number, reaching BGN 1.2 billion at the end of 2021. The positive financial result achieved by the companies in the amount of BGN 80.5 million has a limiting effect.

**Table 55. SPICs' initial capital and equity**

	Initial capital		Equity	
	2020	2021	2020	2021
SIPC securitizing real estate, incl. agricultural land	569,6	513,2	1 168,5	1 086,6
SIPC securitizing receivables	13,1	13,1	74,4	78,0
<b>TOTAL for SPICs</b>	<b>582,7</b>	<b>526,4</b>	<b>1 242,9</b>	<b>1 164,6</b>
<i>change (%)</i>	9,7	-9,7	5,9	-6,3

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 94.0% 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 -0.9 p.p., still

remaining the biggest investor in SPICs by the end of 2021 with a share of 44.6 3%. Bulgarian households own 22.2% of the initial capital of all SPICs, followed by insurance companies and pension funds, whose share decreased by a total of -2.0 p.p. during the year to 14.4%. Banking institutions and financial intermediaries hold 3.5% and 9.2% of the nominal value of the share capital of SPICs, respectively.

EU legal and natural persons holding shares in SPICs increased their relative shares and the end of 2021 they own a total of 3.6% of SPICs compared to a total of 1.2% in 2020.

The shares of SPIC shares held by individuals and legal entities from third countries retain their share of 2.3% at the end of 2021.

There is also a small decline in the relative share of US investors in the share capital of Bulgarian SPICs, which decreased from 2.4% in the previous year to 0.1% at the end of 2021.

**Table 56. Shareholders structure of SPICs**

	2020	2021
Households	17,5	22,2
Banks	2,8	3,5
Public sector	0,0	0,1
Insurance companies (IC) and Pension funds (PF)	16,4	14,4
Financial intermediaries except for IC and PF	3,7	9,2
Shareholding and holding companies	53,6	44,6
<b>Bulgaria</b>	<b>94,1</b>	<b>94,0</b>
Households from the EU	0,4	1,0
Legal entities from the EU	0,9	2,6
<b>EU</b>	<b>1,2</b>	<b>3,6</b>
Households from third countries	0,1	0,1
Legal entities from third countries	2,2	2,2
<b>Third countries</b>	<b>2,3</b>	<b>2,3</b>
Households from the USA	0,0	0,0
Legal entities from the USA	2,3	0,1
<b>USA</b>	<b>2,4</b>	<b>0,1</b>
<b>TOTAL</b>	<b>100,0</b>	<b>100,0</b>

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 issuers

The number of public companies and issuers at the end of 2021 is 237, with a net decrease of 3 companies during the year.

The examined prospectuses for initial public offering in 2021 are 21, of which 3 were of SPICs,

14 were of public companies other than SPICs, 1 warrant issue and 1 bond issue. The total value of the approved issues is BGN 311.5 million. (of which the actual amount collected is BGN 205.6 million), which is a decrease of -25.9% on an annual basis. The prospectuses for admission to trading on a regulated market confirmed in 2021 are 11, of which 1 issue of shares of public companies and 10 issues of bonds, with an issue value of the confirmed issues of BGN 199.3 million. The value of the confirmed issues of shares is BGN 28.3 million, and the value of the confirmed issues of bonds is BGN 170.9 million.

The considered tender offers with a decision not to issue a final ban on publication in 2021 increased by 7 compared to the previous year. There is a significant increase in turnover compared to the previous year, amounting to BGN 762.0 million. (compared to BGN 8.7 million in the previous year). The number of considered tender offers without a final ban is a total of 13, of which the shares acquired as a result of the tender offers are worth BGN 298.3 million.

**Table 57. Reviewed prospectuses and tender offers**

	2017	2018	2019	2020	2021
Prospectuses for initial public offering (number)	19	19	20	19	21
Amount of issue*	352,7	358,4	306,0	420,6	311,5
Decisions for non-issuance of final prohibition for publishing of tender offers	17	7	9	6	13
Turnover**	19,3	17,3	4,5	8,7	762,0

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 capitalisation of the first 10 companies on the Main Market increased by BGN 32.0 million in 2021, and their relative share represents 17.5% of the total market capitalisation of the BSE AD. On the first position in terms of market capitalisation is Tchaikapharma High Quality Medicines AD; the company increases its market capitalisation by 13.5% compared to the previous year, as the company has a 4.1% relative share of the total market capitalisation on the stock exchange. Eurohold Bulgaria AD moved from fifth to second position due to growth of the company's market capitalisation by 86.5% during

the year. The market capitalisation of Speedy AD increased by 88.2% on annual basis, which moved the company from sixth to third position with a relative share of 2.0% of the total market capitalisation on the stock exchange. Despite the reported growth of 39.4%, Sopharma AD moved one position down to fourth place with 2.0% relative share of the total market capitalisation of the BSE. Despite the growth of the market capitalisation of CEZ Distribution Bulgaria AD increased by 25.9% during the reporting period, the company moved from second to fifth position with a relative share of 1.8% of the total market capitalisation on the stock exchange. Alterco's market capitalisation increased to BGN 446.4 million compared to BGN 125.1 million at the end of 2020, which places it sixth in the ranking of the ten leading public companies. The market capitalisation of M + S Hydraulic AD grew during the year, and the company moved up three positions in the ranking. With the largest reported drop of -7.5% are the shares of Gradus AD, and the company moved to eighth position. Regardless of the growth of the capitalisation of Velgraf Asset Management reported during the year, the company ranks ninth at the end of the year. In 2021, Varna Holding AD ranks last, and First Investment Bank AD leaves the ranking of the leading companies on BSE AD. The difference between the first and the last public company by market capitalisation is BGN 987.9 million. For comparison, at the end of the previous year this difference was BGN 863.2 million.

**Table 58. Top 10 public companies by market capitalisation on the main market**

	2020	2021
Tchaikapharma High Quality Medicines AD-Sofia	1 109,7	1 259,1
CEZ Distribution Bulgaria AD-Sofia	447,3	640,8
Sopharma AD-Sofia	431,4	602,3
Gradus AD	355,7	601,2
Eurohold Bulgaria AD-Sofia	343,7	563,0
Speedy AD	320,0	446,4
Velgraph Asset Management AD	282,8	360,9
CB First Investment Bank AD-Sofia	274,3	328,9
Holding Varna AD	256,8	296,6
M+S Hydraulic AD-Kazanlak	246,5	271,1
<b>TOTAL</b>	<b>4 068,2</b>	<b>5 370,3</b>

Note: Data are in million BGN, unless stated otherwise.  
Source: BSE.

In the structure of trade of the first ten leading sectors of Bulgarian Stock Exchange AD for 2021, Financial and Insurance Activities occupied the first place with a turnover of BGN 361.8 million and a relative share in the total turnover of 59.9%, followed by Processing industry with a turnover of BGN 89.1 million and a share of 14.8%. The Professional Activities and Research sector has an annual turnover of BGN 39.3 million and 6.5% share in the structure of trade on the main market of BSE AD.

**Table 59 Trade structure by Top 10 sectors on BSE in 2021**

Sector	Transactions (thsd. numbers)	Volume (million lots)	Volume (million BGN)
Financial and insurance activities	44,1	109,6	361,8
Manufacturing	14,9	20,8	89,1
Professional, scientific and technical activities	9,2	9,4	39,3
Electricity, gas, steam and air conditioning supply	1,1	9,8	38,8
Transportation and storage	0,9	1,7	27,0
Real estate activities	1,1	6,6	19,7
Wholesale and retail trade, repair of motor vehicles and motorcycles	3,8	5,2	16,5
Accommodation and food service activities	1,1	0,4	4,4
Construction	0,7	0,7	3,6
Information and communication	0,1	0,2	3,0
Administrative and support service activities	0,0	0,2	0,3
Mining and quarrying industry	0,2	0,0	0,1

Source: BSE.

The shareholding structure of public companies has changed compared to the previous year, as the share of shareholders from third countries exceeds that of Bulgarian resident shareholders. At the end of 2021, Bulgarian residents own 44.2% of the share capital of public companies, calculated on the basis of the issued equity instruments at nominal value compared to 53.8% in 2020. The share of households and legal entities from third countries increased by 9.4 p.p. during the year, with their share rising to 53.2% in the shareholding structure of public companies. Households and legal entities resident in the EU have a share of 2.0%, followed by individuals and legal entities from the USA (0.6%). The internal structure of the shares of Bulgarian residents is also changing, and despite the decline in the relative share of joint-stock and holding companies, they remain the main shareholder with a 22.5% share. Households follow with a 12.0% share and insurance companies and pension funds with a 5.1% relative share. Financial

intermediaries increase their share in public companies to 2.6% at the end of 2021.

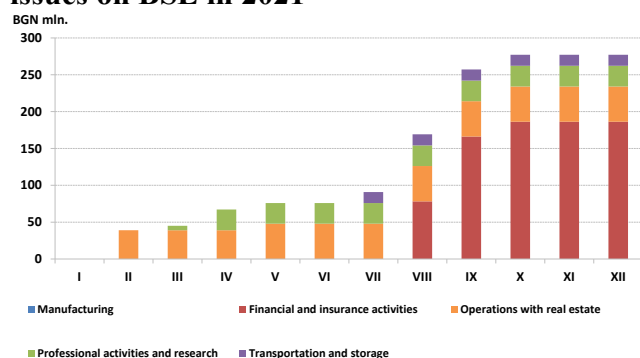
**Table 60. Shareholders structure of PCs**

	2020	2021
Households	14,1	12,0
Banks	2,6	1,9
Public sector	0,1	0,1
Insurance companies (IC) and Pension funds (PF)	8,4	5,1
Financial intermediaries except for IC and PF	0,5	2,6
Shareholding and holding companies	28,1	22,5
<b>Bulgaria</b>	<b>53,8</b>	<b>44,2</b>
Households from the EU	0,2	0,2
Legal entities from the EU	1,9	1,9
<b>EU</b>	<b>2,1</b>	<b>2,0</b>
Households from third countries	0,2	0,4
Legal entities from third countries	43,6	52,8
<b>Third countries</b>	<b>43,8</b>	<b>53,2</b>
Households from the USA	0,0	0,0
Legal entities from the USA	0,3	0,6
<b>USA</b>	<b>0,3</b>	<b>0,6</b>
<b>TOTAL</b>	<b>100,0</b>	<b>100,0</b>

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 2021, 12 issues of corporate bonds with a nominal value of BGN 317.2 million were issued on a regulated market. Five issues with a nominal value of BGN 186.2 million were issued by the Financial and Insurance Activities sector, which accounts for 79.6% of the total corporate bond debt traded on the BSE. 2 issues each were issued by companies from the Real estate operations and Professional activities and research sectors with a nominal value of BGN 47.9 million and BGN 28.0 million, respectively. The Administrative and auxiliary activities, Processing industry and Transport, warehousing, and posts sectors each issued 1 issue with a nominal value of BGN 20.0 million, BGN 20.0 million and BGN 15.0 million, respectively.

**Graph 64. Amount of cumulative bond debt issues on BSE in 2021**



Source: BSE, FSC.

### 2.2.5. Trading venues

In 2021, the total market capitalisation of the markets organised by the Bulgarian Stock Exchange increased by 8.6% compared to the end of 2020 and reached BGN 30.8 billion. The capitalisation of the Main market increased by 32.1% on an annual basis and reached BGN 11.6 billion, while the Alternative market recorded an annual drop of -3.4% and reached BGN 18.9 billion at the end of the year. The market capitalisation of the BEAM growth market for small and medium enterprises, on which 7 share issues are traded, amounts to BGN 278.8 million.

The Premium share trading segment on the Main Market grew by BGN 205.3 million and recorded a growth of 15.4%, reaching BGN 1.5 billion in market capitalisation. The contribution of this segment to the growth of the total market capitalisation of BSE AD is 0.7 p.p. The Standard share segment of the Main Market grew by BGN 2.4 billion to BGN 9.0 billion, increasing its market capitalisation by 35.3% and having a major contribution of 8.3 p.p. in the total growth of the three markets. Accordingly, the capitalisation of the Alternative Market Shares segment, which in 2021 fell by -479.4 million BGN, reaching BGN 18.6 billion, marked a drop of -2.5% and limited the growth by -1.7 p.p. The market capitalisation of the special purpose investment companies

segment on the Main Market marked an annual growth of 33.4% (BGN 261.7 million) and reached BGN 1.0 billion, with a contribution of 0.9 p.p. in the change in market capitalisation. The special purpose investment companies segment on the Alternative Market, whose capitalisation fell by -36.6% (to BGN 335.0 million), had a negative contribution of -0.7 p.p. in the growth of the BSE market capitalisation.

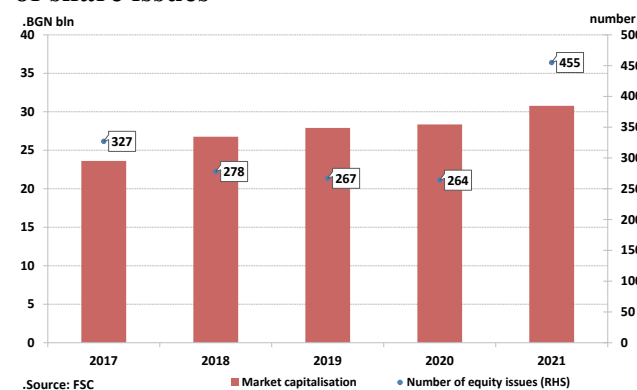
**Table 61. Market capitalisation**

Market or segment	2017	2018	2019	2020	2021
Premium Equities Segment (main market)	2 303,3	1 938,7	1 796,4	1 329,4	1 534,7
Standard Equities Segment (main market)	19 350,2	6 138,3	6 314,9	6 672,0	9 025,6
SIPC segment (main market)	700,0	611,2	786,0	783,3	1 045,0
Equities Segment (alternative market)	895,7	17 590,4	18 590,7	19 041,7	18 562,3
SIPC segment (alternative market)	371,7	486,7	416,5	528,1	335,0
BEAM Markets beam Segment					278,7
<b>TOTAL</b>	<b>23 621,0</b>	<b>26 765,3</b>	<b>27 904,5</b>	<b>28 354,5</b>	<b>30 781,3</b>

Note: Market capitalisation as of 31.12.2021.  
Source: BSE.

The number of issues of financial instruments admitted to trading on the markets organised by the BSE in 2021 increased by 203 issues net and by the end of the year their number was 571.

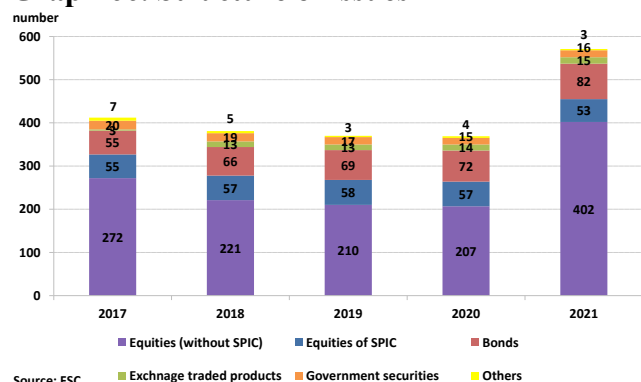
**Graph 65. Market capitalisation and number of share issues**



On the stock market without SPICs, the number of issues increased from 207 in 2020 to 402 in 2021. In the segment of special purpose investment companies, the number of issues decreases by 4 compared to the previous year and at the end of 2021 their number is 53. The issues of bonds registered on the stock exchange in 2021 increased by 10 and by the end of the year their number reached 82. The issues of government securities traded on the segment of government

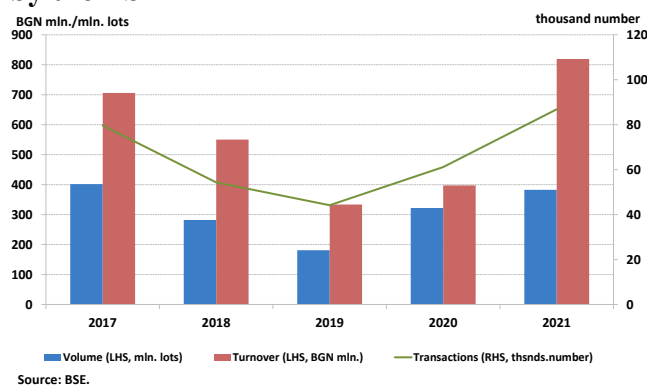
securities trading on the Main market are 16. In the segment for exchange-traded products, 15 issues of funds from this segment are traded. The issues of other financial instruments, which include issues admitted to trading in the Compensatory Instruments Segment, are a total of three. In 2021, the BSE launched a new market, BSE International, on which 100 issues of shares of foreign companies are traded.

**Graph 66. Structure of issues**



The number of transactions on all markets organised by the BSE<sup>66</sup> grew by 42.0% on an annual basis, from 61,173 transactions at the end of 2020 to 86,863 transactions in 2021. The total number of lots transferred in 2021 was 382.4 million lots, which was an 18.8% increase over the previous year. Trading on the BSE markets, measured by turnover, ended the year with an increase of 106.0%, from BGN 397.5 million in 2020 to BGN 819.0 million in 2021, and the change is in different directions in the separate groups of financial instruments. The average daily turnover in 2021 was BGN 3.3 million BGN, increasing by 106.9% compared to the previous year. A major contribution of 47.6 p.p. has the Standard share segment on the Main market, followed by the bond trading segment (31.7 p.p.), the Premium share segment (7.9 p.p.) and the SPIC shares segment on the Main market (7.1 p.p.)

**Graph 67. Trading on the markets organised by the BSE**

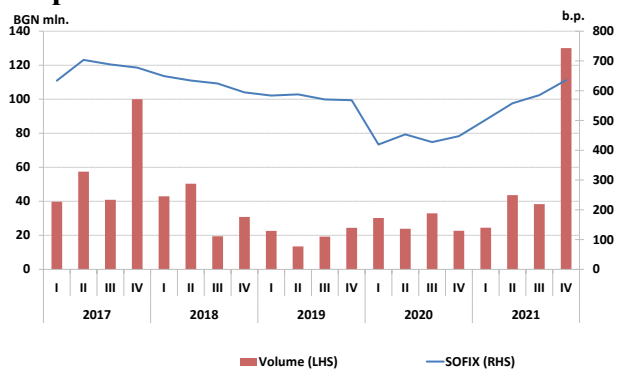


In 2021, the value of the BSE indices recovered from the impact of the COVID-19 pandemic on the capital markets. All the indices of the BSE recorded growth compared to the previous year, managing to exceed their levels from before the pandemic. The sectoral BGREIT, which is usually an exception to the general trend due to the nature of the companies included in the index, also moved upwards throughout the year, with values above the short-term and long-term averages. The turnover of the companies included in the indices increased significantly in all market indices except BGREIT, whose turnover decreased during the year.

In 2021, the main stock exchange index SOFIX reported a growth of 42.0% on an annual basis, reaching 635.68 points at the end of the year. The market capitalisation of the companies included in the index grew to BGN 3.9 billion, which is a 12.8% share of the BSE's total capitalisation.

<sup>66</sup> Including. Regulated Market (Main and Alternative), BEAM Growth Market and BSE International.

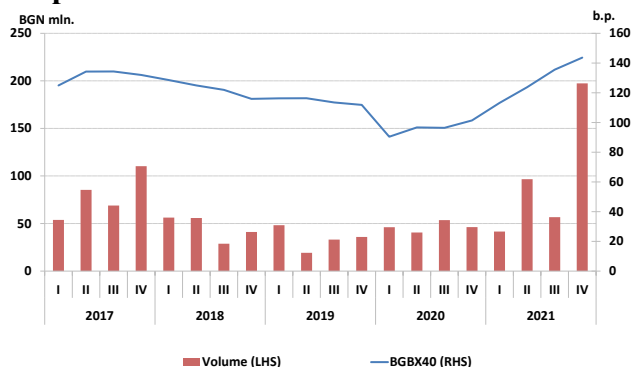
**Graph 68. SOFIX market index**



Source: BSE.

In 2021, the broad stock index BGBX40 reported a growth of 41.7%, ending the year at 143.68 points. The market capitalisation of the companies included in the index increased to 8.9 billion BGN a share of 28.8% of the total market capitalisation of the BSE at the end of the year/

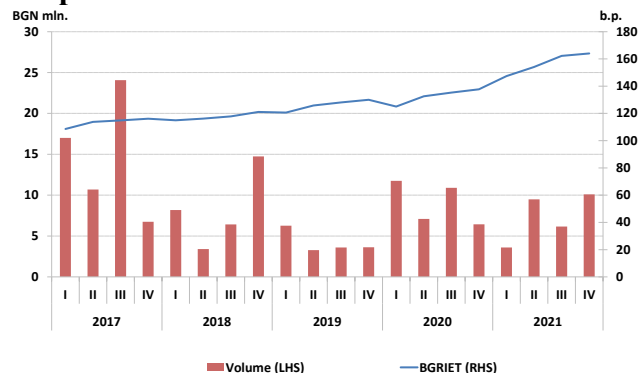
**Graph 69. BGBX40 market index**



Source: BSE.

The BGREIT sector index accelerated its growth rate compared to the previous year. In 2021, it reported an increase 19.1% on an annual basis ending the year at 163.98 points. Its sectoral profiling and the scale of the represented sector led to a limited share of the total market capitalisation by the end of 2021, due to which its dynamics is not fully indicative of the general trends and dynamics of the SPIC segment. The market capitalisation of the companies included in the index grew to BGN 633.9 million by the end of 2021. The SPIC sector represents a 2.1% share of the BSE's total market capitalisation.

**Graph 70. BGREIT market index**

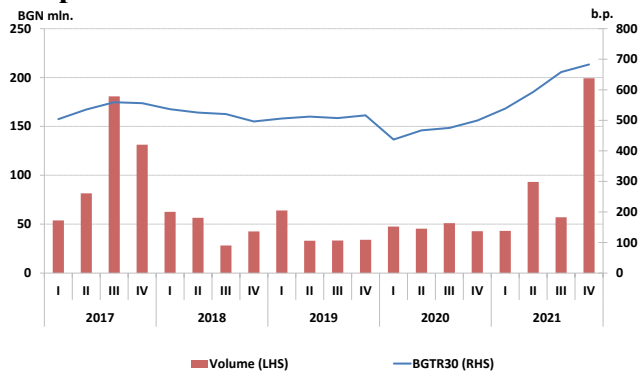


Source: BSE.

Note: The value of indices is the last value for the respective period.

The weighted index BGTR30 increased by 36.8% on an annual basis and by the end of 2021 it reached 682.96 points. The market capitalisation of the companies included in the index increased to BGN 7.0 billion and is 22.8% of the total market capitalisation of the BSE at the end of the year.

**Graph 71. BGTR30 market index**

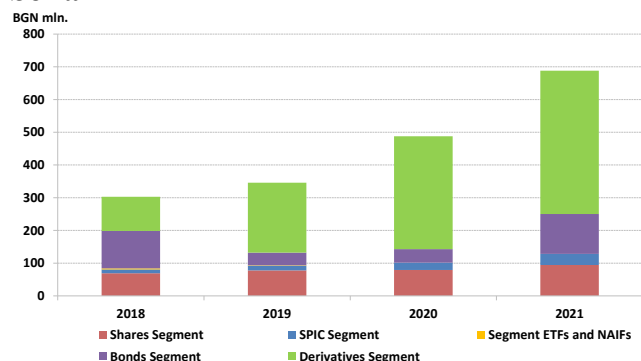


Source: BSE.

In 2021 trading on the Multilateral Trading Facility - Sofia (MTF) increased by 41.1% and reached BGN 688.3 million BGN. The largest contribution to this increase was made by the Derivatives segment, whose turnover reached BGN 438.1 million and has a positive contribution of 19.1 p.p. in trade growth. Next is the Bonds segment, which has a BGN 121.8 million turnover and contributes 16.5 p.p. in the general change of trade. The turnover of the Shares and SPICs segments grew by 19.0% and 52.8% respectively, reaching BGN 94.4 million and BGN 34.0 million,

respectively. Their contribution to the total increase of 41.1% is a total of 5.5 p.p.

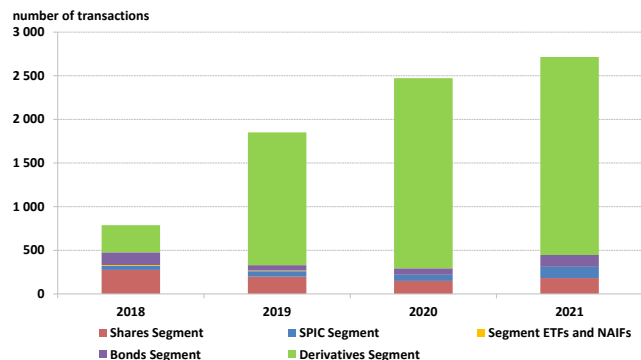
**Graph 72. Dynamics of the turnover of MTF-Sofia**



Source: MTS - Sofia.

The number of transactions marked an annual growth of 9.8% and reached 2,715. The main contribution to this increase is made by the Derivatives segment, on which 2,269 transactions were concluded during the year and it has a positive contribution of 3.7 p.p.

**Graph 73. Number of traded transactions of MTF-Sofia**



Source: MTS - Sofia.

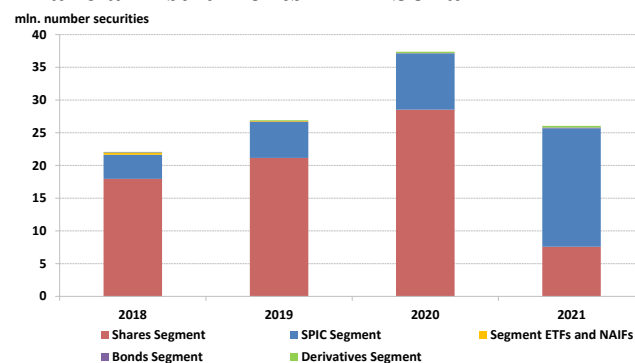
### 2.2.6. Central securities depository

The total value of the assets of Central Depository AD amounts to BGN 9.1 million by the end of 2021.

For 2021, the total number of completed transactions increased by 41.9% (a total of 88,107 transfers for 2021, of which 98.6% were executed on the stock exchange). The main contribution of 42.0 p.p. for the growth in the annual rate of change is of the stock exchange transactions, which increase from 61,173 in 2020 to 86,861 in 2021. The number of transferred securities increased by 20.4% on an annual basis (from 309.3 million to 372.4 million), and transactions with the object of trading compensatory instruments increased by 5.5% on an annual basis (from 670 in 2020 to 707 transactions in 2021). The registered payments with compensatory instruments to state institutions decreased by -35.9% on an annual basis to

In 2021, 26.1 million financial instruments were traded, which compared to the previous year is a decrease of -30.3%. The main contribution to this decrease was made by the Shares segment, in which 7.6 million instruments were traded during the year and contributed by -56.1 p.p. in the annual decline. The SPIC share trading segment recorded an increase in the number of traded instruments and limited the decline by 25.8 p.p. positive contribution. The number of traded financial instruments of the other segments also increased during the year, but they had a limited contribution to the increase in the number of traded financial instruments.

**Graph 74. Dynamics of the traded number of financial instruments MTF-Sofia**



Source: MTS - Sofia.

59 transactions. In 2021 inheritance transfers increased to 2000. Duplicate depository receipts issued decreased from 951 in 2020 to 830 in 2020. During the year, the number of rights transactions increased from 660 in 2020 to 1,199 in 2020, while the transferred rights increase from 174.4 million rights in 2020 to 188.1 million rights.

In 2021, through the system of Central Depository AD, dividends were paid to 73 companies worth BGN 115 million and 339 payments of interest and principal on bond issues were made with a total amount of BGN 184 million. During the reporting period, 67 companies registered new issues of dematerialised financial instruments (53 companies for 2020), of which 27 issues of shares, 22 issues of bonds and 18 issues of units of mutual funds. Applications for change in the register were submitted by 92 companies. Applications for a change in the capital with the issuance of new shares were submitted by 83 companies, of which 8 issues of rights. Capital increase by changing the nominal value of the shares was registered by 9 companies. During the year, 100 issues of shares of foreign companies traded on BSE International were listed in the register. The number of applications to obtain extracts from the shareholders' books increased from 2,978 in 2020 to 3,301 in 2021. In 2021, 1,038 entries were registered in the register of special pledges. Of these, 39 entries on a special pledge, 740 arrests and 249 entries on other circumstances. There are ten entries in the register of financial collateral agreements in 2021.

#### **2.2.7. *Investor Compensation Fund***

In 2021, compensations were paid to five clients of Matador Prime OOD (n) for a total value of BGN 104 thousand. Four of the decisions in this regard were made by the Management Board (MB) in 2020, and one - at the beginning of 2021. The procedure for paying compensation to customers of Matador Prime OOD (n) was activated on 02.01.2019 and in the statutory one-year period for submitting requests (February 1, 2020), a total of 146 requests for payment of compensation from clients of the firm were received in the Investor Compensation Fund (ICF, the Fund). At the beginning of 2021 - almost a year after the expiration of the statutory deadline for presenting a request for payment of compensation by customers of Matador Prime OOD (n), another request for payment of compensation was received in the Fund, with which their total number reached 147. The Board of Directors of the Fund decided not to consider the request, since no special unforeseen circumstances were found that would have prevented the petitioner from submitting the request within the period under Art. 77f, para. 2 of the Civil Procedure Code.

An invariable part of the Fund's activity in 2021 is the collection of contributions due from the participants, the management of the Fund's assets, the analysis of information on the client assets managed by the participants in the scheme and the assessment of the Fund's exposure.

Thus, as of 31.12.2021 the active participants in the Fund are a total of 56, of which 36 investment firms (IFs), 17 investment firm banks (IF-B) and 3 management companies (out of a total of 30), which hold compensable client assets. In the past year, a new investment firm joined the Fund, after the Financial Supervision Commission (FSC) on 05.08.2021 decided to issue a licence to operate as an investment firm to Nahman Capital OOD for the provision of investment services and activities under Art. 6, para. 2, items 1, 2, 4, 5 and 7 of the MFIA and the additional services under Art. 6, para. 3, items 1 - 5 and item 7 of the MFIA.

As of 31.12.2021, ICF participants hold client assets with a total value of BGN 43.3 billion, of which BGN 5.08 billion are compensable and BGN 38.2 billion are not compensable. The main part of the compensable client assets is financial instruments (FI) worth BGN 4.9 billion, and cash assets (CA) are



BGN 147.8 million. Compared to the end of 2020, compensable client assets marked a significant growth of BGN 1.8 billion, with the largest nominal increase being the FIs held by IF-Bs and IFs. In contrast to compensable client assets, non-compensable assets showed a significant drop - from BGN 47.9 billion as of 31.12.2020 to BGN 38.2 billion as of 31.12.2021. The decrease is mainly due to FIs held by private individuals, which are BGN 11.8 billion less on an annual basis.

At the end of 2021, IF-B hold the 72% of compensable client assets, which in absolute value amounts BGN 3.65 billion. Investment firms hold 26% of the compensable client assets and MCs - 2%.

At 31.12.2021, the total number of clients subject to compensation, for all participants in the Fund (IFs, IF-Bs, MCs), is 188,177, i.e., 34,954 more compared to 31.12.2020. The increase is mainly due to IF-B clients who hold compensable assets and which at the end of 2021 were 141,857.

Due to the larger number of clients and the higher amount of compensable client assets, the Fund's exposure to its participants increased from BGN 868 million as of 31.12.2020 to BGN 1.32 billion as of 31.12.2021.

As of 31.12.2021, the assets of ICF, calculated according to the requirements of international accounting standards, amount to BGN 20.01 million. The value of assets invested in government securities and available on current accounts of the ICF amounted to BGN 18.34 million. The cash receipts from annual and entrance fees of the participants in the Fund in 2021 amount to BGN 1.58million. The majority of the funds are received from the annual contributions of the participants, which are determined on the basis of the average monthly values of the client assets subject to compensation. In 2021, on average per month, the participants in the Fund hold reimbursable FIs of clients worth BGN 4.24 billion compared to BGN 2.62 billion in 2020. The average monthly amount of reimbursable cash in 2021 is BGN 134 million compared to BGN 111 million in 2020.

At the end of the year, the Board of Directors of the Fund decided to reduce the amount of the contribution for the compensable FI for 2022 to 0.03%, and the amount of the contribution for the compensable cash was kept at the level of the last five years – 0.25%. The main reasons for reducing the amount of the FI contribution are: the Fund's assets reached a significant amount, and the high degree of coverage of the Fund's assets in case of compensation payment.

Since the beginning of 2017, the Management Board of the Fund is also responsible for the management of the Investment Firms Resolution Fund (IFRF), which was established with the main purpose of financing the implementation of the instruments for rescue and restructuring of problematic investment firms. The funds of IFRF are formed mainly by annual contributions from the investment firms, the amount of which is determined each year by FSC in its capacity of a resolution body. In addition to the annual instalments, a source of funds of IFRF is also the income from investing the funds raised in the IFRF and the interest on overdue receivables.

As of 31.12.2021 the assets in IFRF amount to BGN 181 thousand, of which BGN 177 thousand are invested in debt instruments in euro, issued by foreign countries, which have one of the three highest credit ratings issued simultaneously by two credit rating agencies, BGN 2 thousand are receivables from a contribution not paid on time and BGN 1000 are available in the Bulgarian National Bank in a separate account, which is in the name of ICF, as the IFRF is not an independent legal entity. At the present moment, the contribution due from the firm has been deposited into the account of IFRF.

## 2.3. Insurance market

As of the end of 2021, the total number of licensed (re) insurers based in the Republic of Bulgaria is 34, including 23 non-life insurers, 10 life insurance insurers and 1 reinsurer, whose licence entitles the company to operate in reinsurance in general insurance and in life insurance. Of these, 29 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 2021, which included the data for all insurers with headquarters in the Republic of Bulgaria:

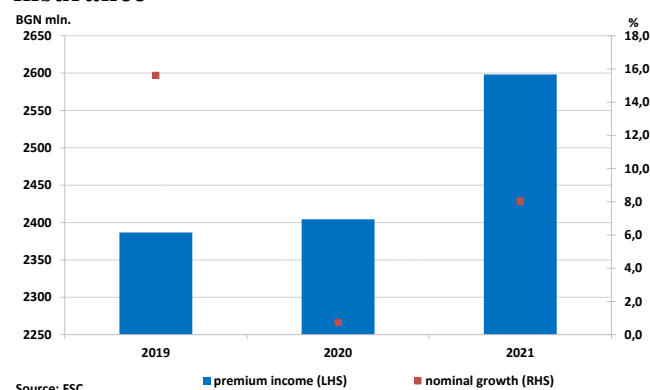
- the gross premium income as at 31.12.2021 amounted to BGN 3,247 million, recording an increase of 13% on an annual basis;
- the Bulgarian insurance market (life and non-life insurance) was allocated in an 81% to 19% ratio for the benefit of the premiums written by non-life insurers;
- insurance penetration, calculated on the basis of gross premium income as a percentage of GDP,<sup>67</sup> is estimated at 2.45% at the end of 2021 compared to 2.40% at the end of the previous year.
- the insurance density calculated as gross premium income per capita<sup>68</sup>, increases to BGN 471 at the end of 2021 compared to BGN 417 at the end of 2020;
- the financial result realized by the insurers at the end of 2021 amounts to BGN 283 million, compared to BGN 172 million at the end of 2020. Non-life insurers report a financial result in the total amount of BGN 227 million, compared to BGN 150 million at the end of 2020. Life insurers also reported a positive financial result of BGN 56 million, compared to a result of BGN 22 million at the end of 2020.

### 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 market<sup>69</sup>, at the end of 2021 amounts to BGN 2,598 million, incl. BGN 2,598 million on direct insurance and BGN 22 million on active reinsurance. On a yearly basis, gross premium income grew by 8%. The growth of premium income in general for the market is mainly due to the growth of premium income under insurance "Motor third-party liability", "Other insurance in

relation to motor vehicles" ("Autocasco") and premium income under assistance insurance.

**Graph 75. Gross premium income in non-life insurance**



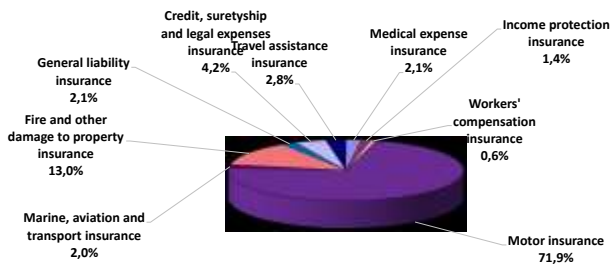
<sup>67</sup> According to NSI data, the GDP in 2021 amounted to BGN 132,744 million.

<sup>68</sup> According to NSI data, the population in 2021 amounted to 6,889,350 people.

<sup>69</sup> The analysis for the insurance market was based on the quarterly reports for the fourth quarter of 2021 received by the Financial Supervision Commission (FSC) in accordance with Commission Implementing 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. The data for 2020 are based on the audited annual reports according to Implementing Regulation (EU) 2015/2450.

In 2021, in the structure of the portfolio of non-life insurance companies, the major share of 72% was held by motor insurances, with motor third-party liability insurance accounting for 45%, and the share of other motor insurance (AutoCasco) insurances was 27%, respectively.

**Graph 76. Structure of gross premium income by classes of insurance for 2021**



Source: FSC.

The realized premium income on motor third-party liability insurance for 2021 increased by 8% on an annual basis (BGN 85 million in absolute terms) and amounted to BGN 1,158 million.

For the period January- December 2021, the premium income written on AutoCasco insurance amounted to BGN 710 million. This class of insurance also reported an increase of 9% on an annual basis.

At the end of 2021, property insurances against fire and other disasters in Bulgaria accounted for a share of 13.0% of the gross premium income compared to 12.9% at the end of 2020. The realized premium income for these insurances amounted to BGN 338 million, a minimum growth of 9% on an annual basis being reported.

Insurance in respect of medical expenses, income protection and compensation of workers occupied a 41% share in the structure of gross premium income realized by non-life insurers at the end of 2021. Premium income on these insurances in 2021 amounted to BGN 105.3 million compared to BGN 93.4 million in 2020, as

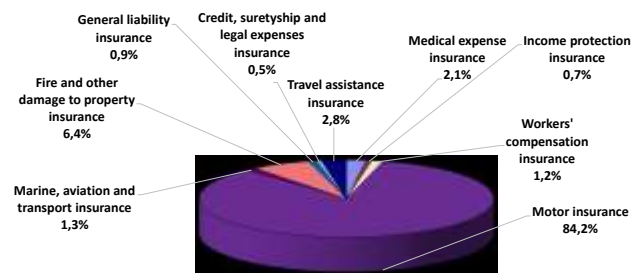
a result of greater demand for this class of insurance.

In 2021, there is an increase in insurance premiums written by insurers for Assistance Insurance from BGN 36.1 million at the end of 2020 to BGN 72.2 million at the end of 2021. Growth is also observed in General liability insurance from BGN 50.3 million at the end of 2020 to BGN 53.6 million at the end of 2021.

The premiums ceded to reinsurers for non-life insurance for 2021 were in the amount of BGN 904 million, representing 35% of the gross written premium generated in the sector. Self-retention coefficient was calculated at 0.65.

The claims arising for non-life insurance at the end of 2021 amounted to BGN 1162 million, with a minimum decrease of 0.03% on an annual basis.

**Graph 77. Structure of claims arising by classes of insurance for 2021**



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 84% was held by car insurances, followed by real estate insurance holding a share of 6%.

A decrease of the claims on an annual basis in the amount of BGN 0.4 million is reported. The largest decrease compared to the previous year is reported for "Accident" insurance (-47 million BGN). In the next place are the "Credit and guarantee insurance", under which the claims decreased by 19 million BGN compared to the

previous year, as well as under the "General liability insurance", which reports a decrease in the amount of 16 million BGN Claims arising under Autocasco, Assistance, Property insurance against fire and other disasters, and Workers' compensation insurance are characterized by the opposite dynamics, which increase on an annual basis by 27 million, respectively. BGN, BGN 20 million, BGN 19 million and BGN 10 million.

The gross loss ratio at the end of 2021 in general for the market is 0.47 compared to 0.49 a year earlier.

**Table 62. Gross loss ratio**

	2020	2021*
Medical expense insurance	0,31	0,48
Income protection insurance	0,34	0,22
Workers' compensation insurance	0,27	0,96
Motor vehicle liability insurance	0,62	0,60
Other motor insurance	0,44	0,46
Marine, aviation and transport insurance	0,23	0,30
Fire and other damage to property insurance	0,18	0,23
General liability insurance	0,58	0,24
Credit and suretyship insurance	0,22	0,03
Legal expenses insurance	0,05	0,14
Assistance	0,35	0,51
Miscellaneous financial loss	0,50	0,14
<b>TOTAL</b>	<b>0,49</b>	<b>0,47</b>

Note: \* Data for 2021 are preliminary.  
Source: FSC.

The expenses incurred by the non-life insurance companies (all technical expenses incurred by the companies during the reporting period) increased by 3% on an annual basis and at the end of 2021 amounted to BGN 623 million. They were 25% of the gross premium income generated by the sector.

**Table 63. Gross expense ratio**

	2020	2021*
Medical expense insurance	0,12	0,32
Income protection insurance	0,41	0,43
Workers' compensation insurance	0,36	0,41
Motor vehicle liability insurance	0,16	0,14
Other motor insurance	0,37	0,37
Marine, aviation and transport insurance	0,20	0,19
Fire and other damage to property insurance	0,30	0,31
General liability insurance	0,30	0,32
Credit and suretyship insurance	0,38	0,37
Legal expenses insurance	0,30	0,34
Assistance	0,29	0,15
Miscellaneous financial loss	0,62	0,52
<b>TOTAL</b>	<b>0,26</b>	<b>0,25</b>

Note: \* Data for 2021 are preliminary.  
Source: FSC.

At the end of 2021, the gross combined ratio is 0.72 and decreases compared to the previous year when it was 0.75. The highest gross combined ratio, above 1, is calculated for income protection insurance (1.37).

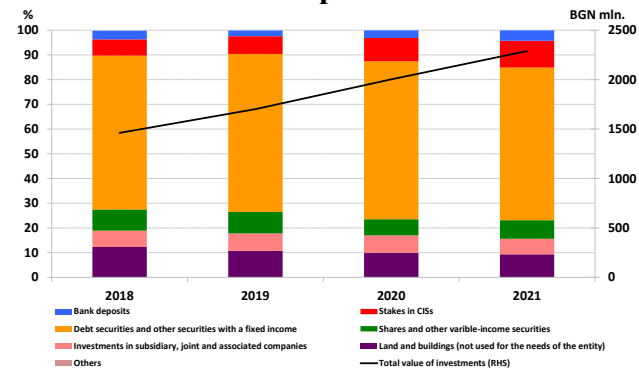
**Table 64. Gross combined ratio**

	2020	2021*
Medical expense insurance	0,43	0,80
Income protection insurance	0,75	0,65
Workers' compensation insurance	0,63	1,37
Motor vehicle liability insurance	0,78	0,74
Other motor insurance	0,81	0,82
Marine, aviation and transport insurance	0,43	0,49
Fire and other damage to property insurance	0,48	0,55
General liability insurance	0,88	0,56
Credit and suretyship insurance	0,60	0,40
Legal expenses insurance	0,36	0,48
Assistance	0,64	0,65
Miscellaneous financial loss	1,12	0,66
<b>TOTAL</b>	<b>0,75</b>	<b>0,72</b>

Note: \* Data for 2021 are preliminary.  
Source: FSC.

At the end of the reporting period, the total assets of non-life insurance companies amounted to BGN 4454 million increasing by 9% on an annual basis. The value of investments of these companies increased by 14% at the end of 2021 and amounted to BGN 2289 million, occupying a share of 51% of total assets. In the structure of the aggregate investment portfolio of non-life insurance companies, government bonds occupy a major share (49%), followed by corporate bonds (13%) and investment in collective investment schemes (11%).

**Graph 78. Structure of investment portfolio of non-life insurance companies**



Source: FSC.

The share of investments in real estate (other than for own use) in the total investment portfolio of non-life insurance companies in the last three years decreased from 11% to 9%. The share of investments in shareholdings in affiliated enterprises decreased from 7% in 2020 to 6%. The share of investments in bonds, incl. Government securities, decreased from 64% at the end of 2020 to 62% at the end of 2021. The relative share of investments in collective investment schemes and in deposits in banks follows the opposite dynamic, increasing to 11% and 4% respectively at the end of 2021.

By the end of 2021, the total amount of the liabilities of the non-life insurers amounted to BGN 3071 million and increased by 8% on an annual basis. Technical reserves set aside by non-life insurance companies accounted for 85% of the liabilities of non-life insurers.

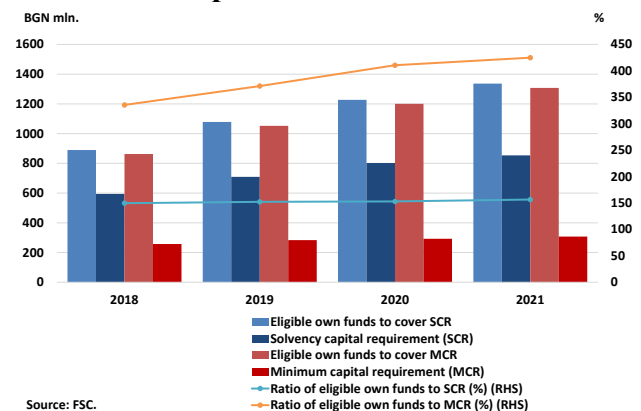
At the end of 2021, the technical reserves set by non-life insurance companies increased by 5% reaching BGN 2594 million.

The excess of the assets over the liabilities of the non-life insurers at the end of 2021 was estimated at BGN 1383 million compared to an excess of BGN 1,252 million at the end of 2020

The eligible own funds to cover the solvency capital requirement of non-life insurers as at 31.12.2020 amounted to BGN 1337 million and the solvency capital requirement (SCR) amounted to BGN 854 million. Eligible tier 1 own funds - unlimited, occupy 97% of the total eligible own funds. The coverage of the MCR with eligible own funds at the end of 2021 was estimated at 157%.

The eligible own funds to cover the minimum capital requirement of non-life insurers as at 31.12.2021 amounted to BGN 1308 million, and the minimum capital requirement (MCR) amounted to BGN 308 million. Respectively, the coverage of the MCR with eligible own funds at the end of 2021 was estimated at 425%.

**Graph 79. Capital requirements of non-life insurance companies**



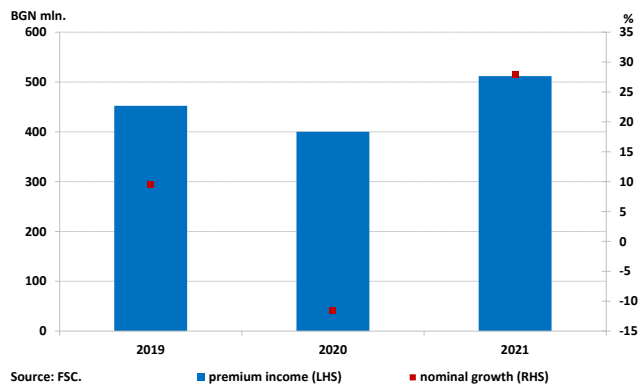
Source: FSC.

### 2.3.2. Life insurance

The gross premium income recorded by life insurers <sup>70</sup>at the end of 2021 reported an increase of 28% on an annual basis and at the end of 2021 amounted to BGN 512 million.

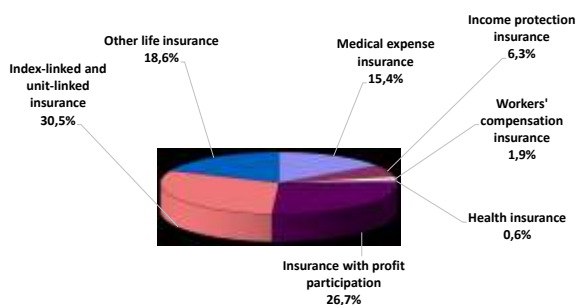
<sup>70</sup> It also includes income from non-life insurance in connection with medical expenses, income protection and workers' compensation, recorded by life insurers.

**Graph 80. Gross premium income of life insurance**



Regarding the structure of the portfolio of life insurers by insurance classes at the end of 2021, the following dynamics is observed: the main share for the first year is occupied by "Index-linked and unit-linked insurance" (31%, compared to 16% for the previous year), the share of "Insurance with profit sharing" decreases (27%, compared to 34% for the previous year) and "Other life insurance" (19%, compared to 22% for the previous year), and the share of "Insurance related to medical expenses" maintains levels close to the previous year - 15%, compared to 16% in the previous year .

**Graph 81. Portfolio structure of life insurance companies in 2021**

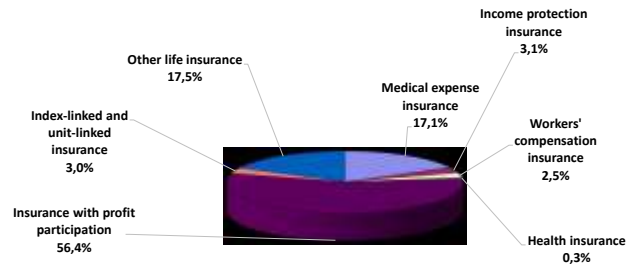


On an annual basis, growth is reported for all types of life insurance.

The gross claims incurred in 2021 for life insurance amount to BGN 208 million. On an annual basis, an increase of claims arising during the year by 18% is reported.

In the overall structure of the incurred claims, the largest share was the share of profit-sharing insurance (56%), followed by other life insurance (18%) and insurance for medical expenses (17%).

**Graph 82. Structure of claims arising by classes of insurance for 2021**



The expenses incurred by life insurers in connection with their operation increased by 16% annually and at the end of 2021 amounted to a total of BGN 137 million, representing 37% of the premiums earned for the period.

The total amount of the assets in the life insurance sector increased by 23% on an annual basis and at the end of 2021 amounted to BGN 2481 million.

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 2353 million at the end of 2021, representing 95% of the total assets in the sector. Their value increases by 24% on an annual basis.

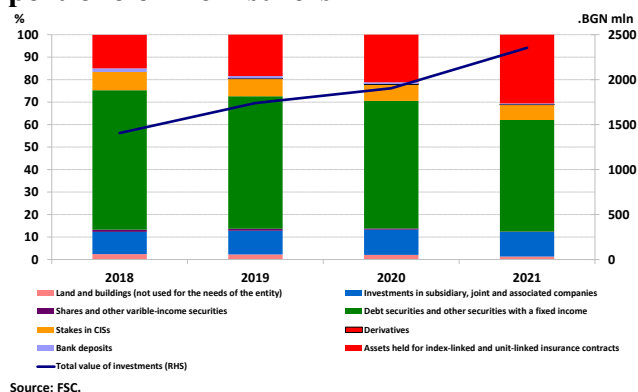
A major share in the value of life insurers' investments at the end of 2021 is occupied by the value of bonds (50%), the relative share of which decreased by 7 pp. compared to the previous year, despite the reported increase in absolute value in the amount of BGN 88 million.

The value of the assets held for index-linked and unit-linked contracts increased by 78% on an annual basis reaching BGN 719 million at the end of 2021, and the relative share in the total amount

of investments in the life insurance sector increased to 31% from 21% at the end of 2020.

The relative shares of shareholdings in related enterprises, including participations, and of investments in collective investment schemes maintained their levels from the previous year at 11% and 7%, respectively. An increase in absolute value on an annual basis is recorded both in the value of shareholdings in related enterprises, including participations (BGN 44 million), and in collective investment schemes (BGN 19 million). As a result of the continuing environment of low interest rates, in 2021 there was a decrease by BGN 3.4 million on an annual basis in the value of deposits other than cash equivalents, whose relative share decreased from 0.8% in 2020 to 0.5% in 2021.

**Graph 83. Structure of the investment portfolio of life insurers**



Source: FSC.

The technical reserves allocated by the life insurers (excluding technical reserves under index-linked and unit-linked shares) in 2021 increased by 8% and at the end of the year amounted to BGN 1,101 million.

Technical reserves under index-linked and unit-linked contracts set aside at the end of 2021 increased by 85% on an annual basis and amounted to BGN 710 million at the end of the year.

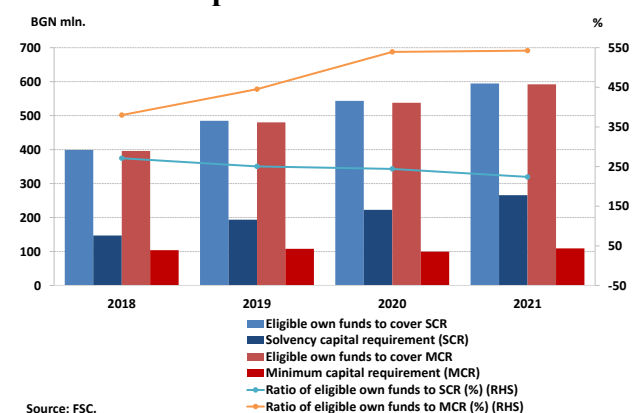
The excess of the assets over the liabilities of the life insurers at the end of 2021 was estimated

at BGN 603 million compared to an excess of BGN 550 million at the end of 2020

The eligible own funds to cover the solvency capital requirement of life insurers as at 31.12.2021 amounted to BGN 595 million and the solvency capital requirement (SCR) amounted to BGN 266 million. Eligible tier 1 own funds - unlimited, occupy a share of 96% of the total eligible own funds. The coverage of the MCR with eligible own funds at the end of 2021 was estimated at 224%.

The eligible own funds to cover the minimum capital requirement of life insurers as at 31.12.2021 amounted to BGN 592 million, and the minimum capital requirement (MCR) amounted to BGN 109 million. Respectively, the coverage of the MCR with eligible own funds at the end of 2021 was estimated at 542%.

**Graph 84. Capital requirements for life insurance companies**



Source: FSC.

Compared to 2020, there is a growth in eligible own funds to cover the solvency capital requirement, as well as the solvency capital requirement.

### 2.3.3. Re-insurance

In the year 2021, eight 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 2001 million compared

to BGN 1844 million 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 1,200 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 2021 the 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 39.3 million, compared to BGN 38.3 million in the previous year.

At the end of 2021, the funds available in the Fund for uninsured motor vehicles, according to Art. 556, para. 1 of the IC, amounted to BGN 102 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 2021 amounted to BGN 10.1 million and grew by 52% on an annual basis.

In 2021, no guaranteed insurance receivables from consumers of insurance services were paid from the funds of the Security Fund. As at 31.12.2021, the funds of the Security Fund amount to BGN 86 million.

#### **2.4. *Social insurance market***

The net assets of the supplementary pension funds (SPF) increased in 2021, reaching BGN 19,557.1 million by the end of the year. 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 2021 are 4,849,754 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) and the beginning of the payout phase for persons insured in universal pension funds.

##### **2.4.1. *Pension insurance companies***

As at 31.12.2021, nine licensed PICs operated, with the total number of the pension funds managed by them being 32, including 10



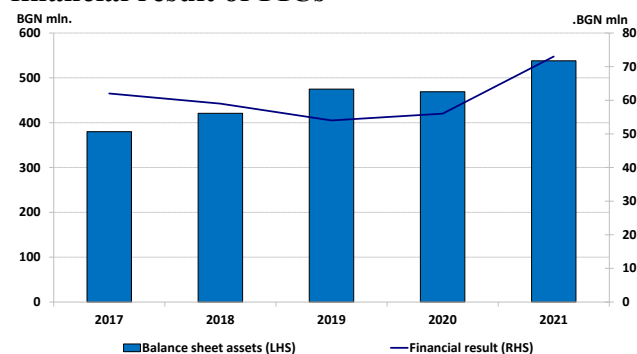
universal (UPFs), 10 occupational ones (OPFs), 10 voluntary ones (VPF) and two voluntary pension funds with occupational schemes (VPFOS).<sup>71</sup> At the end of 2021, 16 funds for payments to persons insured in universal pension funds were established, including 7 lifelong pension payment funds (LPPFs) and 9 term payment funds (TPFs) have been established.

Four of the companies operating on the pension insurance market are part of international financial groups - PIC Doverie AD - Vienna Insurance Group AG WienerVersicherung Gruppe, PIC DSK - Rodina AD - OTP BANK NYRT, PIC Allianz Bulgaria AD - ALLIANZ SE and PIC UBB EAD - KBC Group N.V.

In four of the licensed companies there were shareholders directly holding more than 90% of the capital.

The balance sheet assets of PICs as at 31.12.2021 are BGN 538.3 million, marking an increase 14.7% compared to 2020. There is a significant increase also in the total net financial result of PICs, which for 2021 amounts to BGN 73.0 million and is BGN17 million or 30.4% higher compared to the total net financial result for 2020.

**Graph 85. Balance sheet assets and net financial result of PICs**



Source: FSC.

During the reporting year, with the SPA of the SIC, prom. in SG, no. 19 of 05.03.2021, new

higher requirements for the capital of pension insurance companies were adopted - an increase in the minimum amount of the registered capital, as well as the introduction of requirements for the amount of the companies' own funds covering the solvency limit. In connection with these changes, during the year the enhanced monitoring of the capital adequacy of one PIC was suspended.

The average value of the own funds to solvency limit indicator at the end of 2021 of all ten licensed pension insurance companies is 347.9%, which significantly exceeds the legally defined minimum amount of 100%. The indicator varied widely between 102.2% and 696.4% for different companies.

The liquid resources of PICs, SPFs, and the payment funds (PFs) as at 31.12.2021 were higher than the statutory minimal amount, i.e., all companies and the funds they managed were able to cover their current liabilities. The increase in liquidity for PICs and SPFs is due to a change in the method of determining liquid assets.

The reserves for guaranteeing the minimum return in UPFs and in OPFs, set aside with funds of PICs, as of 31.12.2021, amount to BGN 119 million, and their amount corresponds to the statutory provisions. With the changes in the SIC adopted during the year, the amount of reserves for guaranteeing the minimum yield in UPF and in PPF was reduced from the range of 1%-3% of the value of the net assets of the respective fund to the range of 0.5%-1.5% of the value of the net assets of the respective fund. Also, a requirement was introduced for the formation of a new specialized reserve in PICs - a reserve for guaranteeing the gross contributions to the UPF. At the end of the reporting year, the reserves for guaranteeing the gross contributions to the UPF, set aside with the funds of the PIC, amount to BGN 84 million, and

<sup>71</sup> In one UPF, one OPF, one VPF and one VPFOS as of 31.12.2021, there are still no insured persons.

their amount corresponds to the statutory provisions - 0.5% of the value of the net assets of the universal pension fund. The investments made with the funds from the reserves, as well as the valuation of these investments, are in accordance with the regulatory requirements.

**Table 65. Ratio of the own funds of the PICs to the solvency and liquidity limit of the PICs and funds**

	2021
Capital adequacy of PIC (%)	347,9
Liquidity of PIC (coef.)	19,4
Liquidity of UPF (coef.)	196,4
Liquidity of PPF (coef.)	150,3
Liquidity of VPF (coef.)	177,7
Liquidity of VPFOS (coef.)	61,2
Liquidity of LPPF (coef.) under Article 9, paragraph 4, point 1 of Ordinance 10	5,6
Liquidity of LPPF (coef.) under Article 9, paragraph 4, point 2 of Ordinance 10	97,4
Liquidity of TPF (coef.) under Article 9, paragraph 4, point 1 of Ordinance 10	1,2
Liquidity of TPF (coef.) under Article 9, paragraph 4, point 2 of Ordinance 10	12,7

Note: The indicators are calculated as an arithmetic mean of the values of individual PIC/SPF.  
Source: FSC.

The degree of coverage of the registered capital ranges widely between 82.1% and 527.8%. The average unweighted value of the indicator at the end of 2021 is 298.3% compared to 333.1% for 2020, i.e., a decrease by 34.8 p.p. During the reporting year, in connection with the adopted amendments to the regulatory framework and more specifically the increase of the minimum registered capital of PICs from BGN 5 million to BGN 7.5 million, five companies increased their registered capital. The newly licensed company also increased its capital during the year. For two PICs, the value of the indicator decreases, and this is due to the faster growth rate of the registered capital compared to the growth of the equity. For seven companies the value of the indicator increases, for four of them this is due to an increase in equity and maintaining the amount of registered capital, and for three PICs it is due to a higher rate of growth of equity compared to the increase in registered capital.

The reported return on equity at the end of 2021 was 19.7% on average for the sector, with an insignificant decrease of 0.1 p.p. compared to 2020. The range of return on equity for individual PICs is broad, its lowest value is (-8.6%) and the

highest is 60.7%. The value of the indicator increases for six PICs, and this is due to the increase in profit outpacing the increase in equity. For three PICs the value of the indicator decreases, and this is due to the faster growth rate of the equity compared to the growth of the profit. During the year, only the newly licensed company reported a loss, as a result of which its indicator has a negative value.

**Table 66. Analysis of PICs equity**

	2020	2021
Level of coverage of registered capital	333,1	298,3
Profitability of equity	19,8	19,7

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 funds (SPF and PF) is in the range between 1.9% and 5.2%. The average unweighted value of the indicator at the end of 2021 is 3.3% compared to 2.9% for 2020, i.e., an increase by 0.4 p.p. The value of the indicator for individual companies remains almost unchanged, except for one in which the value of the indicator increases significantly.

The average unweighted value of the return on assets indicator of PICs the end of 2021 is 10.3% compared to 10.2% for 2020, i.e. an increase by 0.1 p.p. For seven companies the indicator increased, and this is due to the increase in profit outpacing the increase in assets. The value of the indicator decreased for two PICs due to the growth of assets outpacing the growth of profit. The range of return on assets for individual PICs is broad, its lowest value is -8.5% and the highest is 28.7%. During the year, only the newly licensed company reported a loss, as a result of which its indicator has a negative value.

**Table 67. Analysis of PIC assets**

	2020	2021
Level of coverage of SPFs' assets	2,9	3,3
Profitability of PIC assets	10,2	10,3
Growth of PIC assets	4,0	25,8

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 materially increases from 4.0% for 2020 to 25.8% for 2021, i.e. during the year there is a much faster growth rate of PIC assets compared to 2020. The value of the indicator increased for seven PICs, which for five of them significantly, and decreased only for two. For individual companies, the asset growth indicator is in the range between 4.0% and 74.0%.

**Table 68. Analysis of PIC income and expenses**

	2020	2021
Efficiency of PIC activities	133,8	114,9

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 2021 is 114.9% compared to 133.8% in 2020, and there is a decrease of 18.9 p.p. In the case of five PICs, the value of the indicator decreases, and in all of them this is due to an increase in expenditures at a faster rate than the increase in revenues. For three companies the value of the indicator increased, and this is due to the increase in revenues outpacing the increase in expenditures. With one PIC, the indicator is unchanged due to the growth of revenues and expenditures being at the same rates. The value of the indicator for individual companies varies between 10.6% and 157.7% and

Compared to 2020, the revenues of PICs from fees and deductions per participant in the funds are increasing. The average unweighted value of the indicator for 2021 amounts to BGN 40.7 compared to BGN 34.53 for the previous year, i.e. an increase by BGN 5.54. The value of the

indicator for all PICs increased, and this is due to increase in revenues from fees and deductions to outpacing the increase in participants. The value of the indicator for individual companies is between BGN 27.46 and BGN 54.07.

The expenses for the activity of PICs per one participant in the managed funds increased by BGN 17.87 in the reporting year 2021, and by the end of the year they amounted to BGN 52.47 compared to BGN 34.60 in 2020. The value of the indicator for all PICs increased, as this is due to the increase in costs at a faster rate than the increase in participants. The formation of the new reserve - a reserve for guaranteeing the gross contributions to the UPF - has an influence on the increase in the costs of PICs. The value of the indicator for individual companies is between BGN 33.71 and BGN 85.64.

**Table 69. Fees, deductions and operating expenses per participant in SPFs**

	2020	2021
Fees and deductions per participant in SPFs	34,5	40,1
Operating expenses per participant in SPFs	34,6	52,5

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 2021 were between BGN 1.04 and BGN 1.30, with the average non-weighted value of the indicator amounting to BGN 1.13 compared to BGN 1.09 in 2020, or a reduction of BGN 0.04. The value of the indicator in all PICs increases, except for one, where there is no change. The increase was due to the faster rate of growth in the revenues from fees and deductions compared to the growth in the funds' balance sheet assets.

The operating costs per BGN 100 of assets of the funds for 2021 varied between BGN 0.96 and BGN 2.10. The unweighted average value of the indicator increased by BGN 0.40, reaching BGN 1.49 at the end of 2021, compared to BGN 1.09 at the end of 2020. The formation of the new reserve

(reserve for guaranteeing the gross contributions to the UPF) has an influence on the increase in the costs of PICs. The indicator increases for all companies, and this is due to the increase of expenditures outpacing the increase in the funds' balance sheet assets.

**Table 70 Fees, deductions and operating costs per BGN 100 of SPFs assets**

	2020	2021
Fees and deductions per BGN 100 of SPFs assets	1,1	1,1
Operating expenses per BGN 100 of SPFs assets	1,1	1,5

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 funds in 2021, no deviations from the statutory requirements were identified in terms of the amount of the mandatory fees and deductions paid to PICs.

In 2021, 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. Two PICs adopted a lower amount of the deduction from each insurance contribution for the SPF managed by it, with one without additional conditions, and the other adopted a differentiated approach depending on the person's insurance period, namely a reduction of their amount after a certain period of time.

Almost all PICs maintain the maximum allowable amount of the fee according to the SIC, calculated on the value of the PF's net assets, depending on the period during which they were managed - 0.5%. One company has decided with resolution of the governing bodies not to deduct a fee from the LPPF and DPF managed by it in 2021. At the end of the reporting year, another PIC

reduced the amount of the fee from the DPF managed by it.

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 2021 is 2.7% compared to 2.8% in 2020, and in VPFOS it is 2.4% in 2021 compared to 3.9 in 2020. The statutory maximum amount of deduction from each social security contribution in SVPF is 7.0%.

**Table 71. Investment fee and social insurance contributions' fee to SVPFs**

	2020	2021
Deducted investment fee of VPF	8,7	8,8
Deducted investment fee of VPFOS	10,0	10,0
Average amount of social insurance contributions' fee in VPF	2,8	2,7
Average amount of social insurance contributions' fee in VPFOS	3,9	2,4

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 2021 amounts to 8.8% compared to 8.7% in 2020 with a statutory fee of up to 10%. As at 31.12.2021 a positive investment income was reported from all VPFs and an investment fee was deducted for the management companies. As at 31.12.2020, only one VPF reported negative investment revenue, as a result of which no investment fee was deducted, and from all other VPF an investment fee was deducted due to reported positive investment income. As of 31.12.2021, the VPFOSs also reported a positive income from investments, and investment fee in the amount of 10.0% was deducted for the management company, as well as at 31.12.2020.

#### **2.4.2. Supplementary pension funds**

During the year, the amount of SPFs balance sheet assets grew at a faster rate than in the previous year. In 2021, the balance sheet assets of SPFs increased by a total of 112.7% on an annual

basis, while in 2020 the balance sheet assets of SPFs increased by 10.6%.

The rate of change in assets is different by type of fund, with the largest increase – of 13.0% observed in UPF, followed by the VPF and OPF, with an increase assets of accordingly 12.4% and 9.8%. A smaller increase in assets compared to the other funds was noted by VPFOS - by 1.3%, which is a lower growth than reported by the fund for the previous year.

**Table 72. Increase of SPFs' assets**

	2020	2021
UPF	11,7	13,0
PPF	6,7	9,8
VPF	3,1	12,4
VPFOS	10,6	1,3

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 24.7% of the managed balance sheet assets, and the one with the smallest market share occupies 1.0%.

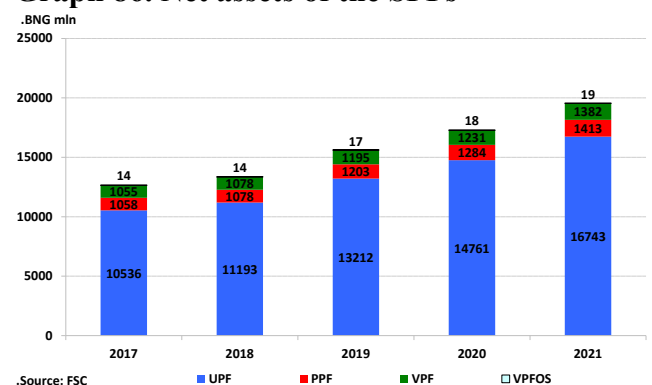
The structure of balance sheet assets by type of fund is strongly dominated by UPF. As at the end of 2021, the relative share of this type of funds is 85.6%. As a result of the higher growth rates of the balance sheet assets of UPF, their relative share in the total balance sheet assets of SPFs expands by 0.2 p.p. compared to 2020 at the expense of the share of OPF. As of the end of 2021, the balance sheet assets of OPF, VPF and VPFOS occupy shares of 7.2%, 7.1% and 0.1%, respectively.

The observed trends in balance sheet assets are also reported for net assets. In 2021, the net assets of SPFs increased by 13.1% on an annual

basis, which exceeds the growth from the previous year of 10.7%.

As at the end of 2021, the net assets of SPFs amount to BGN 19,557.2 million. 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 2021 amount to 14.7% of the volume of GDP<sup>72</sup> 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 (13.4%), followed by VPF (12.3%), OPF (10.0%) and VPFOS (5.6%). The structure of net assets by types of pension funds at the end of 2021 does not differ significantly from that of balance sheet assets.

The average non-weighted amount of managed assets per participant in 2021 in UPFs was BGN 3,838.90 compared to BGN 3,426.98 in 2020, in OPFs – BGN 4,019.56 for 2021 compared to BGN 3,716.01 in 2020, in VPFs – BGN 1,981.23 for 2021 compared to BGN 1,804.30 in 2020, and in VPFOS – BGN 1,853.37 for 2021 compared to BGN 1,809.45 for 2020. For all funds there is an increase in assets managed per one participant. By companies, there were different deviations from the average levels – in

<sup>72</sup> GDP for 2021 was BGN 132744 million according to preliminary NSI data.

UPFs the managed assets per participant were between BGN 2,163.94 and 5,272.39, in OPFs – between 2,412.52 and BGN 5,145.53 and in VPFs – between BGN 682.68 and BGN 4,287.05. The average values of the indicator for individual PICs were between BGN 1,753,05 and BGN 4,615.52

**Table 73. Assets managed per participant in a SPF**

	2017	2018	2019	2020	2021
UPF	2 581,8	2 714,7	3 123,0	3 427,0	3 838,9
PPF	3 192,7	3 225,7	3 536,6	3 716,0	4 019,6
VPF	1 696,3	1 697,2	1 774,9	1 804,3	1 981,2
VPFOS	1 817,3	1 743,1	1 916,2	1 809,4	1 853,4

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 proceeds from social security contributions in SPFs in 2021 increased by 15.9% compared to proceeds in 2020, marking the highest growth for the last five years. The increase in proceeds from insurance contributions in UPFs was the largest in absolute terms – BGN 211.2 million, which represents a growth of 13.9%. In the OPFs, the increase is smaller - by BGN 14.2 million, or by 11.8%. The highest growth – 48.6% was for the proceeds from insurance contributions in VPF which increased by BGN 55.9 million. A decrease in proceeds from insurance contributions was observed only in the case of the VPFOS - by BGN 1.0 million. In 2021, for the first time, the total proceeds from insurance contributions in SPFs will exceed BGN 2 billion.

**Table 74. Gross proceeds from social insurance contributions**

	2017	2018	2019	2020	2021
UPF	1 161,4	1 285,0	1 451,5	1 523,8	1 735,0
PPF	102,6	110,2	120,5	120,8	135,0
VPF	139,0	144,7	133,7	115,0	170,9
VPFOS	1,6	1,6	1,7	2,1	1,1
Total	1 404,6	1 541,5	1 707,4	1 761,7	2 042,0

Note: Data are in BGN million, unless stated otherwise.  
Source: FSC.

The amounts accrued and paid in 2021 increased compared to the previous year by 10.8% 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 68.4% on average for the last five years. In 2021, however, a decrease in the accrued paid out amounts from the VPFs is reported - by BGN 22.1 million, or by 10.2%. For the rest of the SPFs, there is a permanent trend of increasing the amounts charged and paid for the last five years.

**Table 75. Accrued and paid amounts**

	2017	2018	2019	2020	2021
UPF	17,4	20,4	24,1	30,6	52,7
PPF	6,4	6,3	6,7	8,0	10,8
VPF	57,7	66,8	85,7	102,4	92,0
VPFOS	0,3	0,4	0,8	0,8	1,6
Total	81,8	93,9	117,3	141,8	157,1

Note: Data are in BGN million, unless stated otherwise.  
Source: FSC.

The average value of the return on managed assets indicator in SPFs in 2021 for OPFs, VPFs and VPFOSs is 0.05, and for UPFs, the indicator is 0.04. In 2020, the average value of indicator for UPFs, OPFs and VPFs was 0.02, and for the only operating VPFOS, the indicator was 0.03. Compared to the previous year, the indicator increased for all types of funds, which is due to the recovery in financial markets in 2021 from the COVID-19 pandemic.

The average values of the indicator for individual PICs were between 0.01 and 0.08.

**Table 76. Return on managed assets**

	2017	2018	2019	2020	2021
UPF	0,06	-0,02	0,06	0,02	0,04
PPF	0,07	-0,03	0,06	0,02	0,05
VPF	0,07	-0,03	0,05	0,02	0,05
VPFOS	0,10	-0,06	0,09	0,03	0,05

Note: Data are in coefficients. The indicators are calculated as an arithmetic mean of the values of individual SPF.  
Source: FSC.

In 2021 the participants in SPFs are increasing, except for the only VPFOS where participants are decreasing. In 2021, the increase was 0.63% in total, and in 2020 it was 1.2%, i.e. growth in the reporting year is at a slower pace. The growth of the participants in 2021 by funds is as follows: for universal funds - growth of 0.7% (with growth of 1.2% in 2020), for occupational funds the growth is 1.3% in 2021 (compared to

1.4% in 2020), for voluntary funds the growth is 0.1% compared to 0.8 % in 2020, and the only operating VPFOS reports a decrease in participants of (-1.1%) in 2021 compared to 17.2% in 2020. The PIC with the largest market share in terms of the number of participants in its managed SPF retains its position with 24.9%, and the company with the smallest market share occupies 1.7% of the market. The gradual decrease trend of the market share of the largest companies is preserved.

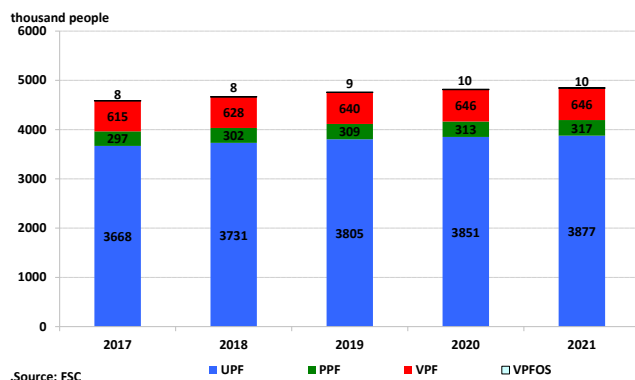
**Table 77. Increase in the number of participants**

	2020	2021
UPF	1,2	0,7
PPF	1,4	1,3
VPF	0,8	0,1
VPFOS	17,2	-1,1

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 2021, 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 13.3% and 6.6% 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 insured persons**



In 2021, 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 4,661 and 2,294, 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 2021, these are 67,840 persons, or 93.6% of the total number of persons admitted to UPF, and respectively 10,213 persons, or 81.7% of the total number of persons admitted to OPF.

During the year, a total of 304,775 people exercised their right to change their participation from one to another respective SMPF. Compared to the previous 2020, their number increased by 31.3%.

Funds transferred from the individual accounts of persons who changed their participation in supplementary pension funds in 2021 increased by a total of 51.3% compared to 2020 and amounted to BGN 1,230.3 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 375.7 million or 50.8% higher than the previous year. OPFs and VPFs also reported an increase in transferred funds, but in general, the amount of transfers was lower in these funds. In 2021, 35.3 million BGN more were transferred between individual OPFs compared to 2020, which represents an increase of 50.1%. Transferred funds to VPFs increased by BGN 6.1 million, or by 174.3%.

**Table 78. Amounts transferred from individual accounts in SPFs**

	2017	2018	2019	2020	2021
UPF	456,6	478,1	651,7	739,2	1 114,9
PPF	49,8	54,6	65,4	70,5	105,8
VPF	3,7	4,2	5,2	3,5	9,6
Total	510,1	536,9	722,3	813,2	1 230,3

Note: Data are in BGN million, unless stated otherwise.  
Source: FSC.

The absolute value of invested resources of SPFs at the end of 2021 was BGN 17.7 billion, representing 90.5% of their balance sheet assets. The SPF's investments in 2021 continued to grow, and the reported growth during the year is 11.1%. In the total volume of invested funds of SPF in 2021, as well as in 2020, the highest share is occupied by UPF (85.3%), followed by OPF (7.3%), VPF (7.3%) and VPFOS (0.1%).

Between 2017 and 2021, the SPFs' investment portfolios were developing, following the dynamics of asset accumulation in the sector, the accumulated investment experience and the capital market trends. The crisis caused by the COVID-19 pandemic has also had an impact on the investment and profitability of SPFs over the past two years.

For the five-year period under review investments in government securities dominate in the portfolios of SPFs, which reached its highest value at the end of 2019 (61.2% of investments). After that, the share of government securities in the portfolios of FDPO followed a downward trend and by the end of 2020 was 56.7%, and by the end of 2021 – 52.0% of investments. Compared to the beginning of the five-year period, however, the relative share of government securities increased by 1.0 p.p.

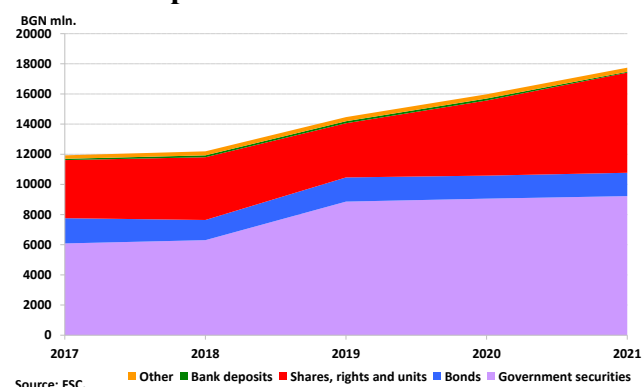
Second place in the aggregated portfolio of SPFs is occupied by investments in shares, rights, and units. For the period 2017 – 2021, the relative share of these investments expanded by 5.1 p.p. The dynamics of this indicator observed during the period is opposite to the trend reported for the relative share of government securities. From 32.3% in 2017 and an increase to 34.1% in 2018,

the share of shares, rights and units at the end of 2019 decreased to 24.9% of the invested funds of SPFs. After 2019, there is again an increased interest in investments with variable income, which reach 31.2% in the at the end of 2020 and 37.4% at the end of 2021 in the aggregate portfolio of SPFs.

At the end of 2021, the relative shares of the other categories of investment instruments in the portfolios of SPFs are lower than at the beginning of the period under review. The most significant is the decrease in the relative share of funds invested in bonds (corporate and municipal). From 14.0 % in 2017 at the end of the five-year period this share shrunk to 8.7% of the invested funds. The reported decrease for the period 2017 - 2021 is 5.3 p.p.

A decrease was also observed in the relative shares of bank deposits and other investments (investment properties) in the aggregated portfolio of SPFs. By the end of 2021, they represent respectively 0.3% and 1.6% of all invested funds of SPFs.

**Graph 88. Structure of the aggregate investment portfolio**

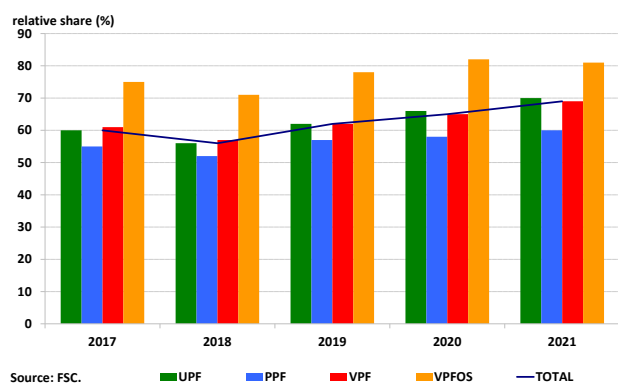


The relative share of the SPF's investments in financial instruments issued by issuers outside the Republic of Bulgaria at the end of 2021 reached 69.1% of their balance sheet assets. Compared to the end of the previous year, there was an increase in the relative share of these investments by 4.1 p.p.



As of the end of 2021, the structure of investments in financial instruments issued by issuers outside the country is dominated by government securities with a share of 57.6%. Variable income securities form 35.2% of investments in financial instruments issued by issuers outside the country, and the remaining 7.2% are invested in corporate 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. Following the negative return in 2018, SPFs reported a positive weighted average return for the last three years. The return on asset management of all SPFs in 2021 is significantly higher than reported in the previous year.

**Table 79. Weighted average rate of return**

	2017	2018	2019	2020	2021,00
UPF	6,3	-4,2	6,5	1,5	4,50
PPF	6,5	-3,6	5,8	1,7	4,90
VPF	7,5	-4,6	6,5	2,2	6,30
VPFOS	9,3	-5,9	8,8	2,9	4,70

Note: Data are in %, unless stated otherwise. \*Wighted by the value of the net assets of individual funds.

Source: FSC.

In September 2021, the first persons insured in the universal pension funds reached retirement age. The funds in the individual accounts of persons with granted lifelong pensions and deferred payments go to lifelong pension payment funds and deferred payment funds, from where the respective payments will be made.

By the end of 2021, 7 lifelong pension payment funds were established. During the period 01.09.2021 - 31.12.2021, a total of 270 pension contracts were concluded for the payment of an additional lifetime pension for old age from LPPF, and BGN 4,479 thousand were transferred to LPPFs for these payments from the individual accounts of persons with concluded pension contracts and BGN 49 thousand for deceased insured persons in the UPF without heirs. The total amount of lifetime pensions paid by LPPFs for 2021 is BGN 52 thousand, and the average amount of pensions paid is BGN 187.70. As of 31.12.2021, the number of pensioners in LPPF remains unchanged - 270 people.

By the end of 2021, 9 deferred payments funds were established. During the period 01.09.2021 - 31.12.2021, contracts for deferred payment of from DPF were concluded with a total of 1,863 persons, and for these payments, BGN 8,635 thousand were transferred to the DPF from the individual accounts of the persons who concluded such contracts. In 2021, a total of BGN 596,000 was paid out in the form of deferred payments to insured persons, and BGN 8,000 was paid to heirs of insured persons who received deferred payments. The average amount of deferred payments for the period is BGN 284.27. As of 31.12.2021, there are 1,769 persons receiving deferred payments from DPFs.

### 2.4.3. Payment funds

### III. Organisational structure of FSC

