

Financial development and innovation: The right path for sustainable future in the non-banking financial sector

It is indisputable that new technologies are fundamentally reshaping the financial sector, while at the same time they are significantly facilitating the access of investors and companies to services. Innovative opportunities in the field of finance are not new, hence in the recent years the investment in technology and the speed of development have reached new heights. As a result, we are witnessing the introduction of new financial technology solutions that use digital identification, mobile applications, cloud services, big data analytics, artificial intelligence, blockchain and shared ledger technologies. The Bulgarian Financial Supervision Commission (FSC) is guided by the belief that the rapid and effective implementation of financial innovations by capital market participants supports both the growth of their activity and the development of the capital market as a whole. Following this policy, the FSC encourages the growing interest in the above principles and takes consistent and timely actions for their accelerated implementation in the non-banking financial services sector.

One of the first steps in this direction is the Innovation Hub created by FSC. It provides a single point of contact for the provision of proposals, but also for the identification of obstacles that are relevant to the sector and which, through facilitated communication and data exchange between the interested parties and the regulator, as in this way can shorten the response time to inquiries received.

We are also committed to broadening the dialogue with all of the interested parties as a basis of achieving a balance between the benefits of the introduction of financial innovations, and ensuring stability and confidence in the financial markets and protection of the rights of investors. For this purpose, a special taskforce to monitor financial innovations in the non-banking financial sector was created within the BFSC's team. Its activity is aiming at tracking the benefits and controlling the risks arising from the integration of financial innovations, as well as promoting the dialogue between the regulator and the business. In this connection the regular studies and analyses that the Bulgarian Financial Supervision Commission team carries out in order to establish the level of innovations used are of essential importance. It must be noted that such types of studies include a specially developed methodology for the effective extraction of information, and the results of the studies serve to plan the subsequent and targeted actions.

At the same time, investor protection is an important social responsibility – and this also applies to the Bulgarian Financial Supervision Commission. The FSC undertakes a number of actions aimed at facilitating users' access to reliable and clear information, so that they can protect their rights. To achieve this goal, FSC conducts a consistent educational and information policy - as part of it, a "Financial Innovations" section has been created on the FSC's website. It contains numerous publications of an educational and cautionary nature aimed at increasing the financial literacy of all the users of financial services. Also, we are about to present the FSC Mobile application to the public.

In this regard it, the FSC undertook the next step to improve public awareness and in accordance with new technologies. FSC launched #InvestSafely, a digital campaign to protect investors of financial services in the non-banking financial sector. The campaign is a step forward from the measures already taken by FSC for the investors' protection. Through the provided online space, it is possible for an unlimited number of people to get information on how to distinguish

unauthorized firms and how to protect oneself from them. The campaign has a dedicated website that combines video and text, news and warnings to users: <https://investsafely.fsc.bg/>, as well as series of video content posted on the FSC YouTube channel and FSC's LinkedIn profile. Additionally, the users are provided with a direct access to the list of licensed investment firms, as well as indications for investors to identify irregularities. In addition to the above actions, the initiative #InvestSafely was also promoted through public lectures conducted by some of the FSC's experts in partnership with the Bulgarian Association of Licensed Investment Brokers and the Investors Compensation Fund, at the leading universities in the Republic of Bulgaria under the title "Invest Safely in the Digital World".

Convinced from the need for joint cooperation between the regulator and the business to create a developed fintech ecosystem, representatives of the Commission actively participate in a number of local and international initiatives in cooperation with the Bulgarian Fintech Association. One of the examples in this direction is the efficient and effective participation of FSC in the events "From Zero to Fintech" and the webinar "Safety of the digital financial instruments: Pay safely on the Internet!" which is initiated by Junior Achievement and organized by the Bulgarian Fintech Association on the occasion of the Global Money Week.

The FSC assesses the important role of financial technologies for the development of the capital market by integrating digitization and changing business models, through data-based solutions, for example in the asset management sector, in the sector of investment intermediaries and in the distribution channels of financial products. We are assured that the communication with the European supervisory authorities, the participation in the meetings of the structures of the European Commission and the exchange of experience with regulatory authorities from other member states is of primary importance for the implementation of rules for the development of digital technologies in order the safety for investors to be ensured.

In this regard, the preparation of the new Digital Financial Package of the EC has also an important role for the development of the digitization. The draft regulations and directives on digital operational resilience for the financial sector (DORA), on the Markets in Crypto-assets and amending Directive (EU) 2019/1937 (MiCA), the pilot regime for market infrastructures based on distributed ledger technology (DLT) are all examples in this regard. The package aims to stimulate competitiveness and innovation in the financial sector in Europe, to provide investors and companies with a greater choice of financial services and modern payment solutions, and to ensure investor protection and financial stability. An essential stage in the development of the regulatory framework is the joint initiative of the European supervisory authorities to collect information and data with the participation of the Commission and representatives of the Bulgarian companies, with the ultimate goal to assist the market participants in the future application of the European legislation.

Furthermore, during 2022 the FSC took part in online event organized by the National Bank of Lithuania regarding the possibility of introducing a regulatory sandbox - a working environment provided by the regulator for supervised testing of new financial products and provision of financial services in a digital environment.

The crowdfunding regulation is introduced in order to provide new funding opportunities for start-ups and small and medium-sized enterprises, which usually rely on small-scale investments. Such funding may be under the form of loans or through the acquisition of transferable securities or other eligible instruments for the purposes of crowdfunding. The

adoption of the new legal framework provides a possibility to seek financing for their activities by accessing the capital markets of all EU member states under alleviated conditions, while at the same time equal conditions were created for potential competitors from other countries and the rights and the interests of investors are guaranteed.

Regarding the investor protection, in the legislation have been introduced mechanisms, which are mainly in two directions:

1. The first of them is aimed at investors and more specifically it addresses the need of preparing and presenting an assessment to investors. The aim is to confirm their understanding of the risks involved in investing in startups and private enterprises.
2. The second group of investor protection measures includes a set of requirements for platforms, encompassing conflict of interest policies, prudential policies and disclosure of information about platforms wishing to invest in their own offerings listed on the platform. It is planned to prepare a new harmonized document for each offer - an information sheet for key investments (Key Investment Information Sheet - KIIS). KIIS includes information about project creators and platform process features. The new regulation allows the use of special purpose vehicles (SPVs), which facilitate individual small investors and grant them the same level of investor rights as larger investors.

A guarantee for greater transparency and competitiveness of companies on the European market is provided by the harmonized requirements and rules, with the introduction of a single process of authorization and passporting for platforms that would like to operate throughout Europe, coordinated by the European Securities and Markets Authority (ESMA), as well as a uniform set of requirements for businesses to raise capital up to 5 million euros over a period of 12 months without having to prepare a prospectus.

In continuation of the actions already taken and in sync with the adopted Strategy for Monitoring Financial Innovations for the period 2021-2024, in which the planned long-term commitments are outlined, FSC declares its readiness to continue successful cooperation with the business. The FSC will continue to promote the development of financial innovations, by monitoring the development of financial technologies, assessing possible risks for the market and for investors and initiating actions and measures to minimize them in order to realize the benefits of the growing interest in innovative financial products and technologies, in accordance with regulatory requirements.

The new technologies change the non-banking financial sector and the ways investors and companies access services. They create opportunities for better access to finance and improve the financial inclusion of citizens within the digital society. Financial technologies support operational efficiency and further increase the competitiveness of the economy of the countries where they are used and contribute to the deepening and expansion of capital markets in the European Union.