

CSDs: CDAD (Bulgaria)

Date: 18 Mar 2009

SMI Markets: Bulgaria

CMIRR Markets: Bulgaria

## BSE Rules on Surveillance and Risk Management

The Financial Supervisory Commission has approved the Surveillance Rules and Risk Management Rules of the Bulgarian Stock Exchange (BSE), effective from 11 March 2009. The new rules are aimed at ensuring investor protection, and aid transparency and stability of the market.

The Surveillance Rules regulate the supervisory powers of the BSE over the market, members and their clients. The Rules include details on:

- the relationship between BSE members and their respective clients,
- the treatment of conflicts of interest,
- market manipulation, insider trading, audit and sanctions.

The Surveillance Rules also stipulate the fine imposed on brokers on late settlements. This is equivalent to 0.1% of the amount of each failed trade, with a minimum of BGN 5 and a maximum of BGN 500 per trade and per day. Penalties will be imposed from the first day of delay.

The Risk Management amendments include changes to the maintenance of the Guarantee Fund to guarantee the timely settlement of transactions. Resources for the fund will be collected from initial and monthly contributions of the members. The monthly contribution will be calculated based on the member's transaction volume in the previous month. The total amount of resources for the Fund will be capped based on the turnover of the Stock Exchange for the prior 12-month period.

The Fund supervises failing trades on a daily basis. If a trade is still failing at the end of the 7th working day from the original settlement date, the fund members will meet on the following day to approve invoking the fund's resources to settle the trade. The fund may decide not to interfere under the below circumstances:

- If the available funds are not enough to fully cover the respective member's obligation;
- If it is possible that the trade will settle during the next two working days;
- If use of the fund may lead to permanent negative consequences for the capital market.

If the Fund does intervene, the following will apply:

- If a trade is failing due to lack of funds from the buyer, the fund will authorise the use of its resources to settle the trade, and claim these and any related costs from the respective BSE member;
- If a trade is failing due to lack of securities from the seller, the fund will purchase the securities and transfer them to the seller, claiming any resources and costs incurred;
- The fund will discontinue attempts to settle a trade if the necessary financial instruments cannot be bought within 10 working days;
- If a corporate action entitlement is received with the purchase, the fund will transfer this directly to the buyer;
- If a trade is failing due to both the lack of funds and securities, the fund will action both of the above measures simultaneously.

## CSD Risk Impact

### CDAD (Bulgaria)

CSD Rating: A

CSD Flash Impact: Positive

Impacted Risk Type: Liquidity Risk

Current Rating = A

Flash Impact = Positive

Impacted Risk Type: Counterparty Risk

Current Rating = A

Flash Impact = Positive

The rules were established to help supervise the market, curtail late settlements and manage/maintain the guarantee fund. Penalties are expected to decrease the fails rate by encouraging participants to settle on time. The risk management rules establish the contribution to and the utilisation of the guarantee fund to complete settlement in case of participant default and in case of failure of the participants to provide funds and/or

securities. Accordingly, these have 'Positive' impacts on liquidity and counterparty risks.

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## Market Information Impact

### Bulgaria

This information affects the data contained in the Settlement sections of the Securities Market Information Service.

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## Infrastructure Risk Ratings Impact

### Bulgaria

Market Rating: A-

Market Flash Impact: Positive

Impacted Risk Type: Liquidity Risk

Current Rating = A-

Flash Impact = Positive

Impacted Risk Type: Counterparty Risk

Current Rating = A

Flash Impact = Positive

The rules were established to help supervise the market, curtail late settlements and manage/maintain the guarantee fund. Penalties are expected to decrease the fails rate by encouraging participants to settle on time. The risk management rules establish the contribution to and the utilisation of the guarantee fund to complete settlement in case of participant default and in case of failure of the participants to provide funds and/or securities. Accordingly, these have 'Positive' impacts on liquidity and counterparty risks.

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