



REPUBLIC OF BULGARIA
MINISTRY OF FINANCE

<Translation from Bulgarian>

ORDER

No ZMF - 1358

Sofia, 31.12.2021

Pursuant to Art. 25, para. 4 of the Administration Act, and Art. 6, para. 1 and Art. 5 of the transitional and final provisions of Ordinance No. 15 of 2007 on the Control over Transactions in Government Securities

I ORDER:

1. I approve the Criteria for selection of primary dealers of government securities (the "Criteria"), according to Annex No. 1.
2. The criteria under item 1 shall enter into force on 1 January 2022. The first selection of primary dealers under the Criteria under item 1 shall take place for the calendar year 2023, and only for Criterion 3 the reporting shall start from 1 July 2022.
3. I issue Instructions on reporting on the Criteria for selection of primary dealers of government securities and granting the right to primary dealers to participate as joint lead or co-lead managers in syndicated transactions in the placement of bonds issued by the Republic of Bulgaria on international markets, in accordance with Annex No. 2.
4. The instructions under item 3 shall enter into force on 1 January 2022.
5. I repeal the Criteria for selection of primary dealers of government securities, approved by the Minister of Finance with No. 93-27-59 / 17.03.2008, as of January 1, 2022.
6. I repeal the Instructions on the reporting of the criteria for selection of primary dealers of government securities, approved by the Minister of Finance with No. UK-3 / 04.11.2020, as of January 1, 2022.

I assign the control over the execution of this Order to the Deputy Minister of Finance, who shall carry out the operational management of the Government Debt Directorate.

The order shall be brought to the attention of the interested parties for information and implementation and shall be published on the website of the Ministry of Finance.

ASEN VASILEV

**DEPUTY PRIME MINISTER
FOR THE EURO FUNDS AND
MINISTER OF FINANCE**

CRITERIA
FOR THE SELECTION OF PRIMARY DEALERS OF
GOVERNMENT SECURITIES

1. The applicants shall participate regularly in the primary market of government securities. For the evaluation period, the candidates for primary dealers shall have acquired on the primary market government securities in the amount of not less than 3% of the total issued quantity for the respective period.
2. The applicants shall promote the development of a liquid and transparent secondary government securities market. For the evaluation period, primary dealer applicants shall have a market share of at least 3%.
3. The applicants shall maintain firm quotes on the MTF - E-Bond platform.
4. The applicants shall provide affordable services to their clients for trading in government securities on the primary and secondary markets.
5. The applicants shall provide the Ministry of Finance with information about their activity on the government securities market.
6. The applicants shall participate in consultations with the Ministry of Finance regarding the development of the government securities market and provide, upon request, analyses of its condition and recommendations for updating the regulations.

**INSTRUCTIONS
ON THE REPORTING OF THE CRITERIA
FOR THE SELECTION OF PRIMARY DEALERS OF GOVERNMENT SECURITIES
AND GRANTING TO THE PRIMARY DEALERS THE RIGHT TO PARTICIPATE
AS JOINT LEAD OR CO-LEAD MANAGERS IN SYNDICATED TRANSACTIONS
IN THE PLACEMENT OF BONDS, ISSUED BY
THE REPUBLIC OF BULGARIA ON INTERNATIONAL MARKETS**

I. REPORTING OF THE CRITERIA FOR THE SELECTION OF PRIMARY DEALERS OF GOVERNMENT SECURITIES

Criterion 1:

To participate regularly in the primary market of government securities.

For the evaluation period, the candidates for primary dealers should have acquired government securities (at nominal value) on the primary market in the amount of not less than 3% of the total issued amount of government securities for the respective period. The calculation of the indicator for persons who were primary dealers during the evaluation period shall include government securities acquired at their own and others' account, and for persons who were not primary dealers, government securities acquired by them through primary dealers on the primary market at their own account.

Scope of the indicator: The share of government securities acquired by the candidate for primary dealer on the primary market for the evaluation period, shall be determined as the ratio of the total nominal value of government securities approved for the candidate at the auctions, to the total nominal value of government securities issued for the period.

Calculation of the indicator: The Ministry of Finance shall determine the fulfilment of Criterion 1 for all candidates for primary dealers during the evaluation period, on the basis of information from the System for conducting auctions and subscriptions for the sale of government securities (AGS)¹, on the quantities of government securities approved at the auctions for each candidate.

Criterion 2:

To assist in the development of a liquid and transparent secondary government securities market.

For the evaluation period the persons, the candidates for primary dealers, should have a market share (the nominal value of government securities on their transactions on the secondary market of government securities, for the evaluation period, compared to the total nominal value

¹ System for conducting auctions and subscriptions for the sale of government securities pursuant to Art. 2, para. 4, item 1 of Ordinance No. 5 of 2007.

of all transactions with government securities made on the market), not less than 3% of the total volume of all government securities transactions on the secondary market for the period. All government securities transactions on the secondary market, both at their own account and at the account of the primary dealer's customers, shall be reported.

The Ministry of Finance shall determine the fulfilment of Criterion 2 for the persons who were primary dealers or participants in the electronic system for registration and servicing of trading with government securities ESROT² during the evaluation period, on the basis of the available information on the government securities transactions of the participants in the ESROT system.

Applicants for primary dealers who were not primary dealers or participants in the ESROT system during the evaluation period shall provide information on the fulfilment of Criterion 2 as part of the necessary documents for applying for a primary dealer, attached to the application under Art. 7 of Ordinance No. 15 of 2007 on the Control over Transactions with Government Securities (promulgated, SG No. 85/2007; amended and supplemented, SG No. 29/2017 and SG No. 13 of 2021), hereinafter referred to as "Ordinance No. 15 of 2007". The information on the volume of government securities transactions made by the applicant for the period in which he/she was not a participant in the ESROT system, shall be prepared or certified by the relevant government securities sub-depository in accordance with these instructions.

Scope of the indicator: The market share of the candidate for primary dealer for the evaluation period shall be defined as the ratio of the total volume of government securities transactions performed by the person, to the total volume of all government securities transactions on the secondary market for the period. The nominal value of government securities subject to the transaction shall be reported.

Scope of transactions: The indicator covers all government securities transactions issued on the secondary market under Ordinance No. 5 of 2007 on the Terms and conditions for Acquisition, Registration, Redemption and Trading in Government Securities (promulgated, SG, iss. 85 of 2007; amended and supplemented, SG No. 100/2013, SG No. 56/2015 and SG No. 29/2017), hereinafter referred to as "Ordinance No. 5 of 2007".

All types of government securities transactions, which are concluded on the market between the participants in ESROT, between the participants in ESROT and clients, and between clients of different participants in ESROT (see Appendix 1: "Transactions to be included when calculating the volume of the secondary government securities market, for the purposes of implementation under item 2 of the Criteria), shall be reported, according to Art. 16, para. 1, items 1-3 of Ordinance No. 5 of 2007.

For the purposes of calculating the indicator, all transactions on blocking / unblocking government securities related to securing funds on accounts of budgetary enterprises in banks, entries under the Special Pledges Act and in other cases of blocking / unblocking, as well as the

² Electronic system for registration and servicing of government securities trading, pursuant to Art. 2, para. A, item 3 of Ordinance No. 5 of 2007.

operations for transfer of government securities to registers that do not have the status of transactions, according to Art. 16, para. 1, items 1-3 of Ordinance No. 5 of 2007, shall not be reported as transactions.

Calculation of the indicator: To determine the total volume of government securities transactions (determination of the numerator) the following methodology shall be applied:

- 50% of the nominal value of the government securities subject to transactions included in the scope of the indicator, for which bilateral notification is required, shall be reported for each participant (see Appendix 1).
- 100% of the nominal value of government securities subject to transactions included in the scope of the indicator, for which unilateral notification is required, shall be reported for each participant (see Appendix 1).

When reporting the total volume of all executed government securities transactions on the secondary market (denominator determination), 100% of the nominal value of all transactions shall be reported.

The nominal value of government securities transactions denominated in foreign currency shall be converted into BGN at the official BNB exchange rate valid on the day of their conclusion.

Dissemination of information: The Ministry of Finance shall publish monthly information on the total volume of all government securities transactions on the secondary market, calculated in accordance with the above methodology, on its website, in the Government Debt section, under the Government Securities Market heading – “Volume on the secondary market for the purposes of implementation under item 2 of the Criteria for selection of government securities primary dealers”, within the 3rd working day following the end of the reporting period, based on information from the ESROT system.

The Ministry of Finance shall determine the fulfilment of Criterion 2 for the persons who were primary dealers or participants in the ESROT system during the evaluation period, based on the available information on the government securities transactions of the participants in the ESROT system.

Applicants for primary dealers who were not primary dealers or participants in the ESROT system during the evaluation period shall provide information on the fulfilment of Criterion 2 as part of the necessary documents for applying for a primary dealer, attached to the application under Art. 7 of Ordinance No. 15 of 2007. Information on the volume of government securities transactions made by the applicant for the period in which he/she was not a participant in the ESROT system, shall be prepared or certified by the relevant government securities sub-depository in accordance with these instructions.

Criterion 3:

To maintain firm quotes on MTF - the E-Bond platform.

Scope of the indicator: The persons, candidates for primary dealers, for the evaluation period should cover cumulatively the requirements of items 1 - 5, as follows:

1. Maintaining quotes on the platform in not less than 80% of the number of working days during the relevant evaluation period;
2. Quoting for at least 3 hours, within a system day in the time from 8:30 am to 4:00 pm;
3. Quoting of 50% of the issues, determined as obligatory for quotation, on the following principle: 6 issues issued most recently, in the amount of over BGN 400 million. Replacement of an issue shall be done by the oldest issue being shifted by the newly issued one, upon reaching the threshold of BGN 400 million, as of the day of settlement after the auction, for reaching the threshold;
4. The maximum spread between the "buy" and "sell" quotations may not exceed 50 BPS reflected in profitability;
5. The minimum volume for quotation shall be BGN 500 thousand.

For persons who were not primary dealers for the evaluation period, Criterion 3 shall not be taken into account, as only primary dealers of government securities have access to the so-called functionality for maintaining "firm" quotes on the MTF E-Bond platform.

Other requirements:

1. Quotes maintained on the E-BOND system shall be anonymous;
2. Quotes shall be valid only for transactions for purchase or sale of government securities with a maturity of 2 (two) business days;
3. Quotes may be changed at any time, but each participant in E-Bond shall be obliged to conclude a transaction at the yield / price at which he/she has quoted, within the proposed volume, for those orders that were confirmed before the execution of the change.

Dissemination of information: The Ministry of Finance shall publish an up-to-date list of issues designated as mandatory for quotation on its website, in the Government Debt section, under the Government Securities Market heading - "Issues Mandatory for Quotation".

Criterion 4:

To provide to their clients affordable services for trading in government securities on the primary and secondary markets.

The fulfilment of Criterion 4 shall be assessed by monitoring the extent to which the provision of services does not impose restrictive conditions on the clients of the persons applying for primary dealers and does not lead to a decrease in the transparency and liquidity of the government securities market.

Criterion 5:

To provide the Ministry of Finance with information on their activities on the government securities market.

The fulfilment of Criterion 5 shall be carried out on the basis of regularity and quality of the information provided by the persons, candidates for primary dealers, for their activity on the government securities market.

For persons who have been primary dealers of government securities for the evaluation period, the information submitted shall be taken into account and evaluated through the established FTPS connection between the Ministry of Finance and the candidate for primary dealer, according to the "Guidelines for preparation and provision of information for regulatory purposes and control over the registration of government securities transactions on the secondary market"³.

For the persons who have not been primary dealers for the period of evaluation by the Procedure for selection of primary dealers of government securities, for the respective period, the Ministry of Finance shall indicate the type, scope and form of the required information.

Criterion 6:

To participate in consultations with the Ministry of Finance regarding the development of the government securities market and to provide, upon request, analyses of its condition and recommendations for updating the regulations.

For the persons who have been primary dealers for the evaluation period, their participation shall be taken into account, and the information provided by them shall be evaluated within the Committee of the primary dealers of government securities, in accordance with the provision of Art. 8a of Ordinance No. 15 of 2007.

For the persons who have not been primary dealers for the period of evaluation by the Procedure for selection of primary dealers of government securities, for the respective period, the Ministry of Finance shall indicate the type, scope and form of the required information.

II. GRANTING TO THE PRIMARY DEALERS THE RIGHT TO PARTICIPATE AS JOINT LEAD OR CO-LEAD MANAGERS IN SYNDICATED TRANSACTIONS IN THE PLACEMENT OF BONDS ISSUED BY THE REPUBLIC OF BULGARIA ON INTERNATIONAL MARKETS

Primary government securities dealers shall be entitled to participate as a joint lead manager or co-lead manager in syndicated transactions in the placement of bonds issued by the Republic of Bulgaria on international markets, based on their performance in the ranking for the activity of the primary dealers.

Scope of the indicator: The Ministry of Finance shall prepare and publish a ranking of the activity of primary dealers based on the Methodology for assessing the activity of primary dealers of government securities (see **Appendix 2**).

The primary dealer ranked first in the previous calendar year shall be entitled to participate in syndicated transactions in the placement of bonds issued by the Republic of Bulgaria on international markets, as a joint lead manager in case the primary dealer or the financial group to which he/she belongs, have experience in the placement of sovereign bonds on international markets.

The primary dealer ranked first in the previous calendar year shall be entitled to participate in syndicated transactions in the placement of bonds issued by the Republic of

³ Approved by the Minister of Finance and the Governor of the Bulgarian National Bank (Ministry of Finance No. UK-1 / 28.01.2020 and BNB No.: BNB - 13501 / 28.01.2020).

Bulgaria on international markets, as a co-lead manager in case the primary dealer or financial group, to which he/she belongs, has no experience in placing sovereign bonds on international markets.

The selection of a primary dealer as a joint lead or co-lead manager in syndicated transactions in the placement of bonds issued by the Republic of Bulgaria on international markets shall take into account the latest annual ranking of the activity of primary dealers, through which auctions for government securities were held.

Dissemination of information: The Ministry of Finance shall publish a monthly ranking of the activity of primary dealers of government securities on the primary and secondary markets on its website, in the Government Debt, section, under the Government Securities Market heading - "Activity of Primary Dealers."

APPENDIX 1

Transactions to be included in the calculation of the volume of the secondary market for the purposes of implementation under item 2 of the Criteria

| Code | Type of transaction | Bilateral notification |
|-------------|---------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------|
| 1000 | Transaction for purchase and sale of GS between ESROT participants | Yes |
| 1200 | Repo transaction in GS between ESROT participants with movement of funds on cash settlement accounts. | Yes |
| 1500 | Lending transaction in GS between ESROT participants without movement on cash settlement accounts | Yes |
| 2000 | Transaction for transfer of GS from an ESROT participant to their client | No |
| 2100 | Transaction for purchase of GS by an ESROT participant from their client | No |
| 2200 | Transaction for transfer of GS from an ESROT participant to their client with a subsequent repurchase | No |
| 2250 | GS lending transaction between a lending participant and their borrowing client without movement on cash settlement accounts | No |
| 2300 | Transaction for purchase of GS by an ESROT participant from its client with a subsequent reverse sell-back | No |
| 2350 | Lending transaction in GS between a borrowing participant and its lending client without movement on cash settlement accounts | No |
| 2500 | Transaction for transfer of GS from a client of one ESROT participant to another ESROT participant | Yes |
| 2550 | Transaction for sale/purchase of GS from a client of one ESROT participant to another ESROT participant, with movement of funds | Yes |
| 2700 | Transaction for transfer of GS from a client of one ESROT participant to a client of another ESROT participant | Yes |
| 2750 | Transaction for sale/purchase of GS from a client of one ESROT participant to a client of another ESROT participant, with movement of funds | Yes |
| 2800 | Transaction for transfer of GS from one participant to a client of another participant | Yes |

| | | |
|-------------|-------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| 2850 | Transaction for sale/purchase of GS from one ESROT participant to the client of another ESROT participant, with movement of funds | Yes |
| 1210 | Repo transaction in GS between ESROT participants with movement of funds on cash settlement accounts - part two | Yes |
| 1510 | Lending transaction in GS between ESROT participants without movement on cash settlement accounts - part two | Yes |
| 2210 | Transaction for transfer of GS from an ESROT participant to its client with subsequent repurchase - part two | No |
| 2260 | Lending transaction in GS between a lending participant and a borrowing client without movement of funds on cash settlement accounts - part two | No |
| 2310 | Purchase transaction in GS by an ESROT participant from their client with a subsequent sell-back - part two | No |
| 2360 | Lending transaction in GS between a borrowing participant and its lending client without movement on cash settlement accounts - part two | No |

METHODOLOGY
FOR THE PRIMARY DEALERS OF GOVERNMENT SECURITIES
ACTIVITY ASSESSMENT

The evaluation of the activity shall be carried out on a monthly basis with accumulation within the calendar year. Within ten days after the end of the reporting period, the Ministry of Finance shall inform each primary dealer of the points received by him/her according to the evaluation criteria. In addition, the Ministry of Finance shall publish a list of the five most active primary dealers, in descending order, without information on the awarded quantitative assessment.

The quantitative assessment shall be calculated on the basis of the criteria for assessing the activity of the primary dealers, as follows:

Criteria for evaluation of primary dealers activity - maximum number of points - 100

1. **Criterion: Primary market - maximum number of points 60**
 - 1.1. Total volume of government securities acquired by primary dealers on the primary market during the evaluation period, according to the requirements of item 1 of the Criteria for selection of primary dealers - maximum number of points 60;
2. **Criterion: Secondary market - maximum number of points 40**
 - 2.1. Sub-Criterion: Total volume of government securities transactions on the secondary market performed during the primary dealers assessment period, according to the requirements of item 2 of the primary dealers Selection Criteria - maximum number of points 20;
 - 2.2. Sub-Criterion: Number of days during the evaluation period in which firm quotes are maintained by the primary dealers, according to the requirements of item 3 of the Criteria for selection of primary dealers - maximum number of points 20.

The maximum number of points which may be granted for the activity of each primary dealer in the assessment shall be 100, including 60 points for the primary market and 40 points for the secondary market. For each separate Criterion and sub-Criterion a separate ranking shall be conducted, in which the most active primary dealers shall be awarded the maximum number of points provided for. The next primary dealers in the ranking shall be awarded a proportional number of points, depending on the ratio they have in the fulfilment of the Criterion or sub-Criterion, compared to the primary dealers ranked first. The points awarded for each Criterion shall be summed and the primary dealers shall be ranked according to the total number of points awarded. The ranking shall be done in descending order, the result shall be rounded to the second decimal place.