

DOCUMENT PROVIDED BY BULGARIA

**ADDITIONAL INFORMATION TO
NEGOTIATING POSITION
ON CHAPTER 3 – FREEDOM TO PROVIDE SERVICES**

Bulgaria wishes to refer to its Negotiating Position on Chapter 3 “Freedom to provide services” (CONF-BG 3/01), to the EU Common Position (CONF-BG 15/01) and to provide the required additional information and timetables on the transposition and implementation of the acquis.

ACQUIS ADOPTION AND IMPLEMENTATION

1. Right of establishment and freedom to provide services

The Republic of Bulgaria has established a general non-discriminative regime of national treatment for EU nationals and companies as regards their right of establishment and provision of services on the territory of the country.

The remaining impediments in certain areas will be removed in conformity with the provisions of Article 45 of Europe Agreement and the relative Annexes XVc and XVd.

A national treatment for the acquisition of participation which ensures a majority in adopting decisions or blocks the adoption of decisions in companies engaged in the activities of foreign trade with weapons, munitions or military equipment will be provided by the end of 2004 with a Law Amending and Supplementing the Law for control over the foreign trade with weapons and with commodities and technologies with a possible dual use.

By the end of 2004 Bulgaria will adopt the legislative measures to grant national treatment of the EU nationals and companies as regards representation at court and legal services not including legal advice in business related matters through amendments in the Attorney Act.

A national treatment in arranging gambling games, lotteries, etc. will be granted by the end of 2004 with a Law Amending and Supplementing the Law on Gambling.

As regards the acquisition of land, it must be noted that according to the Bulgarian legislation, when a foreign person registers a company in the Republic of Bulgaria, this company has the legal status of a local person (regardless of the size of the foreign capital participation) and thus it can acquire ownership of land.

Pursuant to Art. 22, Para. 2 of the Constitution, a foreign natural or legal person is free to acquire usufruct rights, building rights and other property rights under the conditions provided by law. This provision is further developed by the Law on Ownership, Law on Foreign Investments and the Lease Law.

According to the last amendment of Art. 29 of the Law on Ownership, as of 21 July 2000, foreign citizens and legal persons no longer need authorization from the Minister of Finance to acquire ownership right over buildings and limited property rights over real estate in the Republic of Bulgaria.

The Lease Law does not contain any restrictions for foreign natural persons, incl. farmers to be a party in a lease contract, under which agricultural land, immovables or movables allocated for producing agricultural goods are placed at the lessee's disposal.

The Directive 73/148/EEC on the abolition of restrictions on movement and residence within the Community for national of Member States with regard to establishment and the provision of services is partially transposed through the Law on Foreigners in the Republic of Bulgaria (LFRB), the Law on Bulgarian Identification Documents (LBID) and the Law on Civil Registration (LCR). The provisions of the Directive regarding the "Residence Permit for a National of a Member State of the European Communities" and those relative to the recognition of the proofs of the right of abode and of residence will be implemented from the date of accession.

2. Financial Services

2.1. Banking

2.1.1. A timetable for achieving full compliance with the acquis

The basic requirements of the European banking directives, included in the Codified banking directive 2000/12/EC are incorporated in the Bulgarian banking legislation. The effective application of the supervisory regulations during the last 4 years gave excellent results and currently the parameters on the status and the activity of all banks comply with all standards of the Directive.

On the basis of the provisions of Directive 93/6/EEC on the capital adequacy of banks and due to the fact that the commercial banks in Bulgaria do not have significant trading books, at this stage it is expedient to apply the principles of Directive 2000/12/EC with respect to the solvency ratio for credit institutions (ex Directive 89/647/EEC). The capital requirements for market risks are partially applied in the BNB's Regulations. In parallel with the development of the financial instruments' market, the BNB will be preparing a regulation, completely conforming to the European directives on the capital adequacy. We envisage by the end of 2004 the draft regulation to be finalized and to enter into force in the beginning of 2005. The BNB is already organizing in principal the preparation of this regulation. For this activity the Bank will rely on the assistance from EU member state central banks' representatives.

2.1.2. Timetables for the banking sector, in particular with regard to the effective implementation of the acquis, the establishment of the necessary administrative and regulatory infrastructure to ensure an efficient and well supervised banking sector. Reinforcement of the prudential supervision (including as foreseen under Directive 95/26/EC) and establishment of effective supervisory bodies before accession

According to the Law on banks (1997), the Bulgarian National Bank is the only authorised institution, effecting supervision over the banking sector in the country. The Bank has considerable rights and autonomy to execute a number of compulsory measures, including the revocation of banking licenses under certain conditions. The law empowers the BNB to impose financial sanctions in addition to the restrictions on the banking activities. The amendments of the Law on banks of 1999 additionally broadened the scope of the supervisory functions through providing new legal rights. Bulgaria has well formed legal and regulatory framework for banking supervision as well as experienced and competent professionals in the banking supervision area.

Directive 95/26/EC in its part concerning banks is repealed with the Directive 2000/12/EC. The application of Directive 2000/12/EC is explained in 2.1.1. As regards to the exchange of information between Member States' supervisory authorities and the European Commission, as well as procedures of supplying and preserving of information, related to commercial banks, Bulgaria will apply all the texts of the Directive from the date of accession to the EU.

2.1.3. Additional information on the organisation and functioning of the banking supervisory bodies, existing resources, number of inspections (on-site and off-site) carried out per year, and the number of sanctions imposed. Information on how co-operation between the financial sector supervisory bodies will be assured;

The ten-year period of functional operation and development of the banking Supervision department at the BNB led to excellent results – currently the supervisory process is executed by a complex, flexible and effective structure and qualified staff.

The "Banking Supervision" Department comprises of: "Supervisory Policy and Methodology" Directorate, "Special Supervision" Directorate, "Off-site Supervision and Analyses" Directorate, "On-site" Directorate and "Supervision Administration" Division. The total number of employees in the Banking Supervision department is 77. This structure allows for supervision over the banking sector in compliance with the Basle Core Principles for Effective Banking Supervision and the EU legislation.

The "Supervision Policy and Methodology" Directorate administrates the procedures on licensing of new banks and branches of foreign banks; the issuance of permits for qualified equity in banking institutions; issuance of certificates for professional ability of members of the managing boards of commercial banks. The Directorate prepares supervisory regulations for limiting the basic banking risks, the solvency and liquidity of banks, as well as rules for preparation of the accounting reports of the banks and auditors' reports, monitors the alignment of accounting policy and practice and maintains the international cooperation in the supervisory area. In addition, it exercises control over the activity of the banks in liquidation. Among its functions is to study the tendencies in the banking system and the influence of the regulations and other external factors.

The "Off-site Supervision and Analyses" Directorate observes currently on a monthly basis the operative results of commercial banks and reflects their condition in accordance with the supervisory requirements. It regularly prepares ratings of banks based on CAEL system of indicators. An Early Warning System functions thus timely signaling for potential problems. Every inspector from the Directorate observes two banks or foreign banks' branches. The inspectors prepare monthly and

quarterly reports, memorandums and thematical reports for the observed banks. The Directorate prepares quarterly Compliance and Enforcement Reports as well as reports on the banking system's condition.

The "On-site" Directorate exercises on-site supervision. The six supervisory teams conduct every year and a half full-scope inspections in each of the 34 banks and foreign banks' branches. The thematical inspections in the banks on concrete problems during the year are several times more. In 2000 full scope inspections are executed in 22 banks. The effectiveness and the transparency of the supervisory inspections are guaranteed by the developed detailed guides, describing all procedures in detail that are applied by the inspectors as well as the methods and the way in which they evaluate the banks under the CAMELS system.

The "Special Supervision" Directorate executes inspections on specific issues when there are signals for money laundering in banks or information for financial frauds. In addition, the Directorate controls the foreign exchange transactions of the financial houses, the structure and the origin of the banks' shareholders capital. The inspectors from the Directorate participate in joint inspections with the Bulgarian National Securities Commission (BNSC) concerning activities of banks as investment intermediaries, as well as with the Deposit Insurance Fund when inspections in closed banks are carried out. The total number of yearly executed inspections of the Directorate exceeds one hundred.

"Supervisory Administration" Division ensures legally the supervision and works out the supervisory sanctions, renders legal assistance for development of projects for amendments of regulations and for new regulations, gives consultations and positions on the application of the supervisory regulations. The total number of the imposed enforcement measures over different banks for 2000 is twelve. A register of measures is kept at the division.

In 1999 the BNB and the Deposit Insurance Fund signed a memorandum in which the information exchange between the two institutions and their joint activities are arranged in details. At this stage, the cooperation with the other supervisory institutions in the country (BNSC) and the Agency for Supervision over Insurance and Gambling (ASIG) is executed on informal basis due to the fact that in Bulgaria there are no financial conglomerates to be the object of the cooperation of the supervisory institutions. Nevertheless, the BNB plans by mid 2002 at the latest to initiate the establishment of a consultative council in which the heads of all the supervisory institutions to be presented. We envisage a creation of working groups with the council, which will develop common memorandum for cooperation as well as procedures for exchange of information and coordination of the supervisory activities.

2.1.4. Additional information on the latest developments in the structure of the banking services industry, the state of bank privatisation, extent of foreign participation in the banking services industry;

The structural reform in the banking sector continues to be in compliance with the programme of the government and in coordination with the international financial institutions. The state ownership in the banking sector as a share of bank assets is remaining 17,6% after the privatization of Hebrosbank (1999) and the sale of Bulbank (2000) to the Italian banking group UniCredito Italiano and the German insurance company Allianz. Municipal capital controls 2,1% of the bank assets. The share of private banks rose from 53,4% at the end of 1999 to 80,3% at the end of 2000. As a result of these transactions the share of assets controlled by foreign banks reached 56,6% at the end of 2000 (18% at the end of 1999). In addition other foreign investors control 16,8% of the assets. Totally foreign banks and investors control 73,4% of the assets in the banking system.

In 2000 there are no mergers of banks or between banks and other financial institutions at the Bulgarian market. Three of the largest Bulgarian banks have been affiliated in international banking groups through their sale: Bulbank in UniCredito Italiano, United Bulgarian Bank in the National Bank of Greece, Expressbank in Société Générale – as a total 42,3% of the assets of the banking system. ING Bank, Citibank, Hypovereinsbank, BNP-Paribas and other large international institutions are present on the Bulgarian banking market.

2.1.5. Deposit Insurance Fund

The Republic of Bulgaria will make the necessary amendments to the Law on Bank Deposit Guaranty following the below listed timetable.

Timetable for reaching the EU minimum level of coverage (Euro 20 000) in accordance with Directive 94/19/EC

Date	At present		31-Dec-01		31-Dec-02		31-Dec-04		31-Dec-06	
Level of coverage	BGN 6 900	EUR 3 528	BGN 8 000	EUR 4 090	BGN 12 000	EUR 6 136	BGN 22 000	EUR 11 248	BGN 39 200	EUR 20 043

2.2. Insurance

The Republic of Bulgaria is ready to implement the Community acquis in the field of provision of insurance services before the accession to the European Union.

2.2.1. A timetable for achieving full compliance with the acquis

The Republic of Bulgaria would like to recall its Position Paper on Chapter 3 (CONF-BG 3/01) and to point out that Directive 91/674/EEC is transposed with the adoption of the Amendment of the National Accounting Standard No.14 except for the principle of the technical account – the partition of the account for purely insurance activity and the activity as a whole of the insurance undertaking. This principle is to be implemented before the date of accession.

The process of further harmonization of the current legislation in the Republic of Bulgaria in the field of insurance with the EU Directives shall proceed by the implementation in the national legislation of the rules of the EU Directives from the second and third generation on life and non-life. For the purpose, till the end of 2005 Bulgaria will undertake the necessary legislative measures to adopt the following legislative acts:

- New Law on the Insurance Undertakings;
- New Law on the Obligatory Insurance;
- New Law on the Insurance Contracts while the currently acting Law on Insurance shall be gradually transformed into Law on Insurance Supervision.

Legislation regulating insurance and insurance supervision activity shall be regularly amended and implemented with a view of the amendments effected in the EU's legislation regulating the insurance sector.

By the end of 2002 the relevant legal acts and proposals for amendments to the legislation in force will be drafted. Through the adoption of these acts a full compliance with the *acquis* will be achieved at the latest by the end of 2005.

The process of transferring the authorities of the National Insurance Council to the Insurance Supervision Directorate /ISD/ to the Agency for Supervision over Insurance and Gambling /ASIG/ shall continue. Thus prerequisites for smooth transition to one-tier insurance supervision system, in conformity with the European practice, shall be established.

2.2.2. Harmonization of the requirements with regards to the TPL motor insurance

With regards to the TPL motor insurance achievement of compliance with the EU minimum levels of compensation and liberalization of premiums is envisaged at the date of accession. Harmonization of this aspect shall be gradual while taking into consideration the specificity of the national insurance services market, by gradual increase of the insurance cover and minimum insurance premiums until reaching the levels valid for the EU.

2.2.3. Administrative infrastructure

The supervision of the insurance sector in Bulgaria is effected by the National Insurance Council and the Agency for Supervision over Insurance and Gambling, structural unit of which is the Insurance Supervision Directorate. The initiated restructuring by merger of supervision over insurance and gambling, and the establishment of the Agency for Supervision over Insurance and Gambling, represents an administrative reform which does not affect the authorities of both structures.

The National Insurance Council is a collective body whose authorities are entitled to grant and revoke granted permits for conducting insurance activity in the Republic of Bulgaria, to grant a permit for a merger, separation and split of insurers.

2.2.4. Additional information on the organization and functioning of the insurance supervision

The Agency for Supervision over Insurance and Gambling exercises the basic operative and regulatory supervisory functions in the insurance sector as per Law on Insurance. According to the text of Art. 22, para. 4 of the Law on Insurance all state bodies and officials are obliged to assist the officials of the Agency while exercising their supervisory authorities. In this way cooperation among the supervisory bodies of the financial sector is implemented.

In 1999 32 on-site inspections have been carried out, and in 2000 – 9. In 2000 11 off-site inspections have been carried out, too. 20 inspections of insurance intermediaries have been effected in 2000.

15 administrative sanctions have been imposed for the period 1999-2000.

2.2.5. Information on the development and the structure of the insurance industry in Bulgaria.

As of December 31, 2000, 33 licensed insurers operate on the Bulgarian market, out of which 20 non-life and 13 life insurers, out of which 5 mutuals.

As of December 31, 2000, the foreign participation in the insurance companies is, as follows:

- QBE International Insurance Limited, Sofia Branch	- 100%
- Levski Spartak	- 100%
- AIG Bulgaria	- 99.99%
- AIG Life Bulgaria	- 99.99%
- Grawe Bulgaria	- 99.95%
- Interamerican Bulgaria	- 95.20%
-Hannover Coop Bulgaria	- 95.01%
- Bul Ins	- 69.51%
- Jupiter	- 58.58%
- Bulstrad	- 51.00%
- Allianz Bulgaria Life	- 44.50%
- Allianz Bulgaria	- 34.75%
- Energia	- 25.00%
- Orel Life	- 19.44%
- Bulstrad DSK Life	- 9.09%

2.3. Investment Services and Securities Markets

2.3.1. A timetable for achieving full compliance with the acquis

The basic requirements provided for in the EU securities directives were transposed in the Bulgarian legislation by the adoption of the Law on Public Offering of Securities (LPOS, 2000), and the regulations thereon.

2.3.2. Timetables for the securities sector, in particular with regard to the effective implementation of the acquis, the establishment of the necessary administrative and regulatory infrastructure to ensure an efficient and well supervised securities sector. Reinforcement of the prudential supervision (including as foreseen under Directive 95/26/EC) and establishment of effective supervisory bodies before accession

The Post BCCI Directive (95/26/EC) in its part concerning the investment firms and UCITS (investment companies) is transposed to a great extent through provisions in the LPOS and the regulations on the licenses for acting as an investment intermediary, investment company and management company, and on the requirements towards the activities of the investment intermediaries and investment companies.

The second stage of setting up a computerized system for the BNSC public register is to be completed by the end of the year 2001. The system will help for the enhancement of the BNSC supervisory capabilities in conformity with the requirements of the Directive.

Full compliance with the Directive will be achieved through the adoption of amendments to the LPOS and the regulations on the activities of investment intermediaries and investment companies by the end of the year 2004. More precisely, the amendments will relate to the disclosure requirements towards the auditors when checking the accounts of the investment firms.

Directive 98/33/EC amending Directive 93/6/EEC on the capital adequacy of investment firms and credit institutions in its part relating to the investment intermediaries was transposed to certain extent by the LPOS and the regulations on the capital adequacy and liquidity of investment intermediaries. The Law and the regulation thereon provide for the establishment of OTC and define OTC derivatives. Further compliance relating to the capital requirements on the OTC derivatives will be achieved by the adoption of amendments to these regulations by the end of the year 2004.

A legislative act for the transposition of Directive 97/9/EC is to be drafted and adopted. The transposition will be made in stages, and for the full compliance of the investor compensation schemes in Bulgaria to the requirements of the Directive Bulgaria will need a transitional period till 31.12.2009 taking into consideration the envisaged accession date 01.01.2007 - justification given in 2.3.5.

2.3.3 Additional information on the organization and functioning of the securities supervisory bodies, existing resources, number of inspections per year, number of sanctions imposed. Cooperation between the financial sector supervisory bodies.

Securities Regulator

The Bulgarian National Securities Commission (BNSC, named Securities and Stock Exchanges Commission till 2000) was established in 1995 as an independent state body with the Council of Ministers. The BNSC is the national regulator entrusted by law with the authority to regulate and supervise the public offering of and trading in securities, the regulated securities markets, the Central Depository, investment intermediaries, investment companies and management companies, in view of ensuring the protection of investors and enhancing the development of a transparent and efficient securities market.

The Commission is composed of a Chairman and six members. They are appointed for a term of five years and discharged by the Council of Ministers at the proposal of the Minister of Finance.

The activities of the Commission are supported by the administrative office which structure includes Chief Secretary, General Administration and Specialized Administration.

The General Administration supports technically the activities of the Commission and the Specialized Administration, provides administrative services to the citizens and legal entities. The General Administration includes the General Office Department, Information Technology Department, Financial and Economic Department, Property Management Department, International Projects, Protocol and Public Relations Department.

The Specialized Administration assists and provides the implementation of the Commission's functions. It is managed by the Chairman. Its activities are organized in divisions and departments. The staff of the BNSC is of 150 persons.

Supervision

The practical operation of the supervision by the BNSC includes 365 on-site inspections for the year 1998, 160 on-site inspections during 1999 and 300 on-site inspections during 2000. The inspections cover the activities of the investment intermediaries, including banks, public companies, and investment companies. Examinations of the documents of issuers and public companies are made in order to be determined whether they fulfil their obligations for current and periodic disclosure of information. Ad hoc inspections are made in cases of investors' or shareholders' complaints or "red flag" information, including information through the mass media. In detail, the BNSC carried out the following supervisory activities:

One of the most numerous groups of market participants under the BNSC's supervision are the securities issuers. In 2000, 21 public companies were entered into the register of issuers, and 380 were deregistered. The BNSC denied deregistration of 46 companies, because they had violated the procedure for convening and running the shareholders meeting on which the decision for deregistration had been taken. As of the end of 2000, a total of 560 public companies and issuers were entered into the Commission's register.

In 2000 were carried out: over 600 inspections of documents filed with the Commission and relating to the disclosure of information by public companies, and 58 on-site inspections in companies, which decided for the public raise of their capital without a prospectus to be published. There were over 400 inspections, relating to documents submitted to the Commission, into the observance of the obligations of public companies to disclose without delay any information about changes in their articles of associations and management bodies and the periodic compulsory information provided by them. Letters were sent to 80 companies to eliminate existing violations.

In 2000 procedures were initiated for the enforcement of administrative measures against 35 companies. The decisions that became effective were 22. The most common violations under the LPOS were related to the convening or running of the annual shareholders meetings of public companies.

Investment intermediaries form the second largest group supervised by the Commission. In 2000, the BNSC issued three licenses for performance of activities as an investment intermediary in the country, including two banks; it has permitted nine investment intermediaries (non-banking institutions) to operate abroad and has denied permission to four applicants. The BNSC revoked the licenses granted to seven investment intermediaries to operate as such and deregistered one bank from the register of investment intermediaries. As of the end of 2000, 99 investment intermediaries, including 29 banks, were entered into the BNSC's register.

In 1999 137 on-site inspections of investment intermediaries were carried out. The requirements for the disclosure of information, the book-keeping and the control of the capital adequacy and liquidity, the presence and management of large expositions, the equipment and software etc. suitability were most frequently offended. Part of the inspections performed by the BNSC's officials was on the grounds of filed claims and warnings concerning the illegal operations with shares. In this connection the inspections are executed together with the Ministry of the Interior authorities when the case is of their competency and the matter is referred to the Prosecutor's Office if necessary.

In 2000, 118 on-site inspections at investment intermediaries were carried out, including 19 banks. The largest number of violations was related to the capital adequacy and liquidity requirements. Considerable part of the inspections of investment intermediaries is prompted by complaints and notifications. Most of them are related to unlawful handling by investment intermediaries (their employees in particular) of shares of natural persons or possession by investment intermediaries of coupons for participation in centralized public auctions. There were 23 inspections of investment intermediaries carried out in close cooperation with the Ministry of Interior when the matters come within the latter's competence and, where necessary, the Prosecutor's Office were notified too.

It should be pointed out that in comparison with 1999, the violations by investment intermediaries of primary and secondary legislation were considerably fewer in 2000 and this is due to better expertise and to the Commission's continuous supervision over their activities.

Another subject of the Commission's supervision were the investment companies. Seven inspections of their activities were carried out in 1999. The most frequent offenses were the non-observance of the requirements for the disclosure of share participation, changes in the by-laws without the Commission's approval, not observing the deadline for the filing of the financial reports, not observing the restrictions of investments in shares etc.

In 2000, ten inspections of their activities were carried out, 6 of which were on-site. Seven statements of administrative violations were issued against natural persons. They cover failure to observe the requirements related to disclosure of information; violations of the prohibition of an investment company to grant a loan; violations of the obligation of an investment company to align its activities and structure with the requirements of the LPOS within the term as established by law, etc.

In order to exercise efficient supervision over transactions effected on the floor of the stock exchange, at the end of November 2000 the BNSC installed a terminal for stock exchange trading surveillance in real time, which is a module from the new trading system (RTS) of the Bulgarian Stock Exchange (BSE) – Sofia. To provide better access to the stock exchange information, the Commission reached an agreement with the BSE – Sofia, that apart from the summarized information from the official Stock Exchange Bulletin, information about transactions executed, orders entered and orders not executed (not finalized) in each trading session would also be provided. Thus the BNSC exercises daily supervision over securities trading through the terminal and the additional information that is provided.

In relation to its regulatory functions under the LPOS, the Commission carried out two inspections of the activities of the Central Depository in the course of the year 2000. They resulted in recommendations that were reflected in the new draft Regulations of the Central Depository.

Administrative-penal activity

In 1999 426 acts of established administrative abuses were drawn up, and totally 260 penalty orders were issued by the BNSC.

In 2000 90 penalty orders were issued for the imposition of financial sanctions – fees and other penalty payments on natural and legal persons.

In 2000, administrative enforcement measures were taken against two investment companies (prohibition against the Board of Directors to effect transactions in assets of the company's portfolio until a liquidator is appointed by the court; mandatory order against the Board of the Directors to align the investment in a particular issue with the statutory limitations within three months).

Co-operation with other institutions

The BNSC works in close cooperation with:

- The Bulgarian National Bank – for the exchange of information and carrying out of joint inspections of the banks in their capacity of investment intermediaries;
- The Ministry of Finance – participation in common tasks force and elaboration of comments on regulatory documents;
- The Ministry of Interior, courts and Prosecution Office – in carrying out joint investigations on claims filed with the BNSC and warnings for abuses of securities regulations;
- The Agency for Foreign Investments - information exchange regarding foreign investment on the capital market in Bulgaria;
- The National Statistics Institute - exchange of information.

The BNSC performs its functions in close cooperation also with:

- The Bulgarian Stock Exchange Sofia for the daily exchange of information about securities deals on each of the market segments, in order to control the conformity of market participants' activities with the law and to prevent the manipulations of the market;
- The Central Depository for the daily information about transfers effected, as well as periodical information about shareholders holdings in registered public companies;

The BNSC works closely also with the local administration, the bodies and institutions of the local self-government, as well as with non-governmental organizations.

2.3.4. Additional information on the latest developments in the structure of the securities services industry, extent of foreign participation in the securities services industry, description of the stock exchange and its members

The Bulgarian Stock Exchange - Sofia is the only regulated securities market in Bulgaria where the trade of companies' shares of the mass privatization, as well as of the former privatization funds (now holdings or investment companies) and of other public companies is concentrated.

The Stock Exchange has a legal organizational form of a joint-stock company. A new point under the LPOS is that the trading on the stock exchange may be carried on the floor or as remote trading. With a view to the special place of the stock exchange in the process of trading in securities and the capital market protection, some restrictions have been stipulated for the stock exchange. It may not grant loans or secure claims of third parties, and may not issue bonds. Pursuant to the Law no court execution can be imposed on the technical equipment, hardware and software. Besides, no bankruptcy proceedings may be initiated against the Stock Exchange. There are some new aspects in the new law, which defines the contents of the Stock Exchange Rules. The Stock Exchange is responsible for the organization of the internal control over the stock exchange trading and the conditions, procedure and the rights of the stock exchange to inspect its members (the investment intermediaries); the conditions and the procedure for disclosing insider trading and prevention of trading misconduct and stock market manipulation; and the conditions and the procedure for disclosure of information about: securities admitted to trading, data about the issuers, the concluded transactions, admission of new members, stock brokers admitted to stock exchange trading. The LPOS requires the Stock Exchange Rules (any change thereof) to be approved by the BNSC.

In 2000 the BSE-Sofia AD adopted a new Rule-Book after the LPOS entered into force. Special attention was paid to the disclosure and dissemination of information by the listed public companies. Issuers whose securities are listed for trading on the official market are required to submit to the BSE data, documents, reports, and any other information in the cases and under the terms when this information has to be submitted to the BNSC, as is required by the LPOS. Substantial part of the new Rule-Book is devoted to the internal control over the exchange trading, over the exchange members and intermediaries, and over fulfillment of the requirements for disclosure of information. A check is made of the transactions concluded during a session after its closing, the aim of which is to prevent market manipulations and insider trading. This control includes checking of orders placed outside the price limitations, checking of transactions made close to or outside the price limitations, cases when client's interest has been ignored, transactions made or orders placed where there is a doubt that the prohibitions on insider trading, fraudulent trade or market manipulations have been violated.

The trading in securities on the stock exchange is carried out in two basic segments – an official market (which has three sub-segments – “A”, “B” and “C”) and a free market. The Rule-Book sets forth the requirements, which the securities should meet to be traded on the official or on the free market.

The so-called Block trading based on established regulations effects securities deals of large volumes or representing a significant part of the capital of a company.

Stock Exchange transactions benefit from a clearing and settlement process based on a DVP at T+3. Each member of the exchange is a member of the Central Depository too. After a transaction is done on the exchange all the information thereon is sent to the Depository by BSE - Sofia. Simultaneously the members' back offices send to the Depository all the clients' details. Each member holds a settlement account in its bank. The Depository ensures that sufficient funds are available in the members' accounts and sufficient stocks are available in the client-vendors accounts. On T+3 the Depository instructs the settlement banks to effect the cash settlement and effects itself the settlement of the securities.

All stock exchange transactions are guaranteed against counterpart failure by the BSE-Sofia guarantee fund.

Only licensed investment intermediaries, including banks, can be members of the BSE. At present, the BSE has 80 members.

Two foreign banks – ING Bank N.B. and Citibank – perform activities as investment intermediaries in Bulgaria through a branch.

A number of banks, which perform activities as investment intermediaries, are of 100% or less foreign participation, such as Bulbank, Raiffeisen Bank, BNP Dresdner Bank, Demir Bank, International Commercial Bank, SG Express Bank.

The Central Depository is established under the LPOS. The Law provides for the statutory regulation of the activities of the Central Depository as an institution of the capital market which opens and keeps accounts of securities, registers transactions in securities, administration of securities, including keeping the books of the company's shareholders for dematerialized shares and other activities. The issuance and the disposal of dematerialized securities are effective as of their registration at the Central Depository. The latter is a joint-stock company, but it is a non-profit organization and cannot distribute dividends to its shareholders, which are the Ministry of Finance, banks, investment intermediaries, the Bulgarian National Bank. Pursuant to the LPOS it cannot be terminated by a resolution of the general meeting and bankruptcy proceedings may not be instituted for it.

The Central Depository is obliged to submit to the BNSC an annual report by 31 March of the following year, as well as a six-month report. Such reports should contain data about its business, of the shareholders composition, its members, as well as year-end financial statements certified by a chartered auditor or specialized audit firm.

The Depository is obliged to maintain an archive of all data, including wrong and corrected entries as well as to maintain at the Bulgarian National Bank a parallel database.

The LPOS is aimed at facilitating the public offering of securities by providing for a greater variety of choices for the issuers, including through the offering of securities on a continuous basis or without publication of prospectus where the issue is to be offered only to the existing shareholders or employees of the issuer. One example in this respect was the decision of BNSC to exempt Interbrew S.A./N.B., Belgium, from publishing a prospectus as the issue was offered only to the employees of the issuer in its subsidiaries in Bulgaria.

Starting from November 2000, four issues of Bulgarian Depository Receipts (BDR's) were approved by the BNSC and admitted to trade on the Bulgarian Stock Exchange – Sofia AD. The BDR's are a new investment instrument traded on the national capital market. The BDR's are based on shares of Deutsche Telekom AG, Deutsche Bank AG, SAP AG, and Siemens AG, which are companies listed on the Frankfurt Stock Exchange.

In accordance with the provisions of the LPOS, in 2000 the Commission started to file in its register notifications of disclosure of equity interest in public companies (upon acquisition of more than 5% or 10% of the votes at the general meeting). As of the present moment, 185 such notifications have been filed.

A new procedure that the Securities Commission adopted was to examine the tender offers extended by shareholders with major holdings (over 50%) in public companies. In 2000, 11 tender offers for the purchase of shares were filed with the Commission. Of them, the Commission: published the tender offers to the shareholders of five companies; issued two temporary bans; withheld one tender offer; terminated one tender offer, and is currently examining two tender offers.

On October 11, 2000 the BNSC licensed the first management company in Bulgaria to manage portfolios of investment companies and other institutional investors.

2.3.5. Regarding the Bulgaria's request for a transitional period until 31 December 2009 on the implementation of the minimum level of coverage of EURO 20.000 set out in Directive 97/9/EC on investor-compensation schemes and the EU invitation for Bulgaria to provide detailed justification of this request including the length of the transitional period and the average amount per investor of funds or securities currently held by banks and investment firms on behalf of investors.

The average amount per investor of funds/securities currently held by banks and investment intermediaries is less than EURO 5000. The overall amount does not exceed EURO 100 mln. The reason for this low average amount is the relatively low level of funds invested in securities, as well as the stage of the development of the capital market.

Compensation schemes are usually based on compensation funds, raised by the market participants. Raising the level of compensation very high on this stage of the development of the market will require very high donations to compensation funds. The negative impact of holding serious amounts in compensation funds may overcome the potential profit from related investment services and block the development of this market. That determines the decision to start compensation schemes with much lower level of protection – about EURO 6000 and raise the level of protection in parallel with the development of the market and size of the overall amount of investments held.

We believe that through economic growth and with the development of the capital market the investors' funds will grow significantly. Additional support to this market will be the pension reform started 1999. Pension funds will start accumulating funds in the beginning of 2002. The annual income of these funds is expected to exceed EURO 0.5 bn. We expect annual growth of EURO 0.5 – 1 bn. of the assets held by banks and investment intermediaries. Having in mind also the end of mass privatization, when more than half of the current investors (having usually less than EURO 1000) will exit this part of the market, we believe that average level of investments per client will raise to EURO 50 000 – 100 000 till the end of the transitional period requested.

2.3.6. Implementation of Directive 85/611/EEC on UCITS as amended by Directive 88/220/EEC and Directive 95/26/EC

The Directive 85/611/EEC on UCITS as amended by Directive 88/220/EEC and Directive 95/26/EC was to a great extent incorporated by the LPOS, the regulations on the licensing of investment companies and management companies, on the prospectuses and the disclosure of information, and on the requirements towards the activities of the investment and management companies, all these adopted in 2000.

Further amendments to the Law will be elaborated and adopted by the end of the year 2006 to allow activities of UCITS in forms other than of investment companies, as provided for in the Directive. The amendments will also cover the exchange of information between the national securities regulator and the regulators of the EU Member States.

Amendments to the regulation on the activities of the investment companies will be adopted by the end of the year 2004 to enlarge the scope of investment instruments concerning the portfolio of the investment companies, as provided for by the amendments of the UCITS Directive.

Some of the thresholds concerning the limitations on certain investments, which are at present higher than these provided for in the Directive, have temporary operation and will be aligned with those under the Directive by the end of the year 2005.

3. Information Society

Directive 98/48/EC on the provision of information in the field of technical standards is partially implemented by the existing law. In accordance with Article 1.3.2 of the National Programme for Information Society Development the full compatibility will be achieved in the middle of 2002. According to the National Programme the State Agency for Standardization is responsible for carrying out the activity.

Directive 98/84/EC on the legal protection of services based on, or consisting of, conditional access is partially implemented by existing law of the Intellectual property. In accordance with Article 1.1.5 of the National Programme for Information Society Development the full compatibility will be achieved in the middle of 2002. According to the National Programme the Ministry of Culture is responsible for carrying out the activity.

The Directive 99/93/EC on the electronic signature is transposed with the Law on electronic documents and signature (passed on second reading in the National Assembly) and is to be promulgated in the State Gazette by the end of May 2001.