



RULES AND REGULATIONS

PART VI RISK MANAGEMENT RULES

Chapter One GENERAL PROVISIONS

Article 1. These Risk Management Rules are part of the Rules and Regulations of the Exchange and govern:

1. the identification of the possible threats and risks, which could inflict potential losses and cause disruption of the trading processes that are ensured, implemented and maintained by the Exchange;
2. the means of control and management of the threats and risks identified;
3. the allocation of responsibilities in connection with risk management among Exchange employees.

Article 2. The risk management policy of the Exchange shall include:

1. the procedures which identify the risks relating to the activities implemented by the Exchange and the systems operated by the Exchange and, where appropriate, set the level of risk tolerated by the Exchange;
2. procedures and measures to manage the risks relating to the activities, processes and systems of the Exchange;
3. mechanisms to monitor the adequacy and effectiveness of the policy and procedures referred to in Item 1 and the level of compliance by the Exchange and the persons who work under contract with the Exchange with the procedures and measures referred to in Item 2;
4. mechanisms to monitor the adequacy and effectiveness of the measures taken to address any deficiencies and non-conformities in the policy and procedures referred to in Item 1 and the procedures and measures referred to in Item 2, including failures by the relevant persons to comply with such policy, procedures and measures.

Chapter Two ALLOCATION OF RESPONSIBILITIES

Article 3. The following persons shall be engaged in risk management:

1. the Board of Directors;
2. the Chief Executive Officer;
3. the directors of directorates;
4. employees working at the Exchange under contract.

Article 4. The Board of Directors shall have the following responsibilities for risk management:

1. make decisions and issue orders regarding risk management;
2. review and assess, at least once a year, the results achieved in risk management.

Article 5. The Chief Executive Officer shall have the following responsibilities for risk management:

1. approve the risk reduction measures proposed by the directors of directorates on the basis of the
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results of the assessment of the various types of risk;

2. approve the decisions on personnel, logistical and methodological resourcing of risk management activities;
3. at least once every 3 (three) months, present to the Board a report on the state of risk management systems;
4. make day-to-day decisions in respect of risk management.

Article 6. The directors of directorates shall have the following responsibilities for risk management:

1. approve and/or present for approval by the Chief Executive Officer of the decisions of directors of directorates on personnel, logistical and methodological resourcing of risk management activities;
2. monitor effectively the unacceptable risks, the changes in the risks/levels of risks and risk management processes;
3. implement the risk assessment process;
4. co-ordinate the actions thereof with the Chief Executive Officer in taking concrete action for risk reduction, introduction of control mechanisms and establishment of internal control standards.

Article 7. The directors of directorates shall have as well the following responsibilities for risk management:

1. organise work for proper implementation of the risk management policy as adopted by the Board of Directors;
2. control the policy and procedures, applied by employees, for identification of the risks relating to the activities of the Exchange and the mechanisms to monitor the adequacy and effectiveness of the said policy and procedures;
3. inform the Chief Executive Officer regarding the number of incidents detected and the extent of damage sustained, in cases where information on this is available;

Article 8. The employees of the Exchange shall be obligated to get acquainted with and to comply with the procedures described in these Risk Management Rules.

Chapter Three

RISK MANAGEMENT POLICIES

Section One

GENERAL PROVISIONS

Article 9. (1) The risk management policy of the Exchange shall be implemented in an integrated manner and conforming to all other policies and principles regulated by internal regulations of the Exchange.

(2) The purpose of this policy is to document the measures and procedures for the identification, management and assessment of the risks relating to the activities of the Exchange according to the procedure established by Item 3 of Article 86 (1) of the MFIA.

Section Two

TYPES OF RISKS AND MANAGEMENT PROCEDURES

Article 10 (1) The Exchange shall address the separate types of risk related to the activities thereof separately, unless the emergence and management of the said risk are closely related.

(2) The Exchange shall differentiate between the following types of risk relating to the activities, procedures and systems thereof:

1. Internal risks: associated with the organisation of work of the Exchange, constituting:

(a) process risks;

(b) systems risks;

(c) personnel risk;

2. External risks: associated with macroeconomic, political and other factors, which affect and/or are likely to affect the activities of the Exchange, constituting:

(a) ambient risks;

(b) physical interference risks.

(3) Risk assessment shall be reported by the directors of directorates on the basis of the risk identification, assessment and control procedure described in Section Three.

(4) On the basis of the results reported according to the procedure, the Exchange shall set a tolerable level of risk for the organisation and shall ensure the performance of the activity within the limits of the tolerable level set.

Article 11. (1) Process risks shall be as follows:

1. Risks associated with the performance of the basic functions of the Exchange, which can be:

(a) disruption of the continuity of trading in financial instruments;

(b) disruption of the continuity of operation of the Financial Instruments Trading System and the rest of the information systems of the Exchange;

2. Risks associated with the services provided, which can be:

(a) culpably inflicted damage directly caused by the provision of false, inaccurate or deficient data and/or analyses in connection with the disclosure of information, public statements and other such;

(b) use in bad faith of confidential information provided by members, issuers and clients (unauthorised access to confidential information) and breach of commercial secrecy;

(c) abuse of confidential information;

(d) conflict of interests;

- (e) errors in the collection, entry and accounting for data;
- (f) errors in supply of information to clients of the Exchange;

3. Project risks:

- (a) budget risk, associated with exceeding pre-set budget estimates;
- (b) quality risk, associated with the impossibility and/or inability to ensure project implementation within the pre-set quality limits ensuring successful implementation of the project;
- (c) default risk, associated with the impossibility and/or inability to finalise the project within the pre-set and announced time limits.

(2) The procedures and measures for management of process risks shall include:

1. Regarding the risks associated with the performance of the basic functions of the Exchange:

- (a) drafting and/or conclusion of agreements on use of a financial instruments trading system;
- (b) drafting and/or conclusion of agreements on use of an information system in connection with the trading carried out;
- (c) maintenance and updating of the trading and information system;
- (d) conclusion of an agreement with one or more depositary institutions and clearing houses in connection with the settlement of transactions in financial instruments;

2. Regarding the risks associated with the services provided:

- (a) elaboration, adoption and implementation of a communication strategy of the Exchange;
- (b) co-ordination of the public statements of members of the Board of Director and of Exchange employees with the Chief Executive Officer and, where necessary, with the Board as well;
- (c) maintenance of systems and procedures ensuring the durable and confidential storage of information on transactions concluded, as well as the information received from issuers in connection with the information disclosure obligations thereof;
- (d) elaboration and implementation of internal rules for handling information on the Exchange, introduction of privileges and levels of access to Exchange information which ensures the prevention of persons working for the Exchange under contract from disclosing and from using, for their own or other persons' benefit, any facts and circumstances concerning transactions concluded or financial results of issuers, as well as any other facts and circumstances constituting a commercial secret, personal data and/or inside information, which has come to their knowledge upon the discharge of their official and professional duties;
- (e) adoption and implementation of ethical rules of conduct of the Exchange staff members;
- (f) ensuring full and up-to-date volume of information regarding the services offered and the obligations of market participants on the Internet site of the Exchange;

3. Regarding the project risks:

- (a) unambiguous designation of the teams and allocation of responsibilities among employees in the development of a particular project;
 - (b) ensuring the use of persons offering competitive advantages or best conditions for implementation of the relevant project in the case of employing external consultants and/or subcontractors;
 - (c) elaboration of terms of reference, a draft budget and fixing time limits for implementation of the
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separate stages of the project;

(d) synchronising public statements in connection with the project with the project manager;

(e) regular reporting of each stage of development of the project to the Chief Executive Officer, as well as current consulting in case of any problem arising and a need to revise the original budget and/or terms of reference;

(f) acceptance of the completed project by the Chief Executive Officer or by the Board.

Article 12. (1) Systems risks shall include:

1. full or partial unreliability and gaps in the fullness of data;
2. subsequent appearance of the problems with the reliability and fullness of data;
3. lack of precision in the methods of processing;
4. software bugs;
5. imperfection of the technologies used;
6. crash in the system of the regulated market, the information and communication systems.

(2) The procedures and measures for management of systems risks shall include:

1. archiving the information system of the Exchange and maintenance of back-up systems;
2. procedure for recovery of the serviceability of the information system;
3. organisation and management of users' access to the information system, which precludes inadvertent or deliberate breaches of the integrity of the systems, used by the Exchange;
4. defining various classes of information stored at the Exchange;
5. defining levels of access to the Exchange employees depending on their positions and the functions which they perform;
6. regular auditing of the information systems.

(3) The Exchange shall elaborate and possess an action plan for emergency situations, which ensures the continuance and maintenance of normal operation for a sufficiently long period in compliance with the statutorily established standards of operation.

Article 13. (1) Personnel risks shall be risks associated with losses from:

1. resignation of key employees;
2. Exchange employees acting in bad faith;
3. lack of sufficient qualification and of training of persons working for the Exchange under contract;
4. adverse revisions of the labour legislation;
5. unensured safety of the working environment;
6. insufficient or inadequate motivation of employees;
7. frequent replacement of employees, leading to an impossibility of adequate performance of the functions.

(2) The procedures and measures of management of personnel risks shall include:

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1. clear definition of internal rules regarding the rights and duties of employees, as well as elaboration of individual job descriptions and familiarisation of employees with the said descriptions;
 2. clearly defined levels of access to the information systems and databases of the Exchange;
 3. regular personnel training on subjects related to financial theory and practice, risk management, the statutory network relevant to the activities of the Exchange, information technology and security and other such;
 4. regular meetings between the directors of directorates at the Exchange for sharing experience, impressions and recommendations regarding the sources of risk and search of solutions for risk management and minimisation;
 5. interviews between directors of directorates and the employees thereof and personnel assessment once every three months;
 6. maintaining open communications among the various units at the Exchange;
 7. delivery of initial and periodic briefing in connection with safety at work;
 8. elaboration and implementation of rules for health and safety at work;
 9. elaboration and implementation of internal wage rules in accordance with the job description of each of the employees.

Article 14. (1) Ambient risks shall include:

1. adverse revisions of the statutory framework;
2. risks associated with the transfer of essential activities to a third-party contractor;
3. political changes;
4. changes in the tax framework.

(2) The procedures and measures for management of ambient risks shall include as a minimum:

1. maintenance of an up-to-date database of the statutory framework relevant to the activities of the Exchange;
2. organising measures to monitor compliance with the policies implemented with the requirements of legislation and using external consultants and legal services in case of need to bring the activities of the Exchange into conformity with the statutory requirements and the changes therein;
3. identifying clients, counterparties etc. in accordance with the requirements of the Measures against Money Laundering Act and the Measures against the Financing of Terrorism Act, as well as the statutory instruments for the application thereof, upon entering into a long-term relationship;
4. taking active part in public discussions regarding planned revisions of the statutory framework concerning the activities of the Exchange and the capital market;
5. monitoring the effectiveness and quality of performance of the persons whom the Exchange has assigned performance of essential functions, as a result of agreements concluded, and where necessary and possible, taking measures to remedy irregularities as ascertained.

Article 15. (1) Ambient risks shall furthermore include physical interference risks, such as:

1. natural disasters;
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2. fire;
3. external fraud and theft;
4. terrorist act;
5. intrusion into the security systems.

(2) The procedures and measures for management of the physical interference risk shall include:

1. ensuring an appropriate way for surveillance and control of the premises where the technological equipment and archives of the Exchange are located;
2. maintaining a constantly serviceable disaster centre, guaranteed continuity of the processes, and in the cases where this is impossible, prompt resumption of the processes;
3. regular preventive maintenance of the operational surveillance and control systems;
4. drafting of an instruction on the access control system in the building of the Exchange;
5. development of a procedure for evacuation of employees in the cases of immediate physical interference in the operation of the Exchange;
6. incident reporting procedure.

Section Three

RISK IDENTIFICATION, ASSESSMENT, MONITORING AND REDUCTION

Article 16. The risk identification, assessment and control procedure shall comprise the following phases:

1. the phase of risk identification, risk self-assessment and exercise of control;
2. a phase of assessment of the frequency of occurrence and ranking risk impact, as well as a change in the level of risk, including the following activities:
 - (a) reporting risk quantifiers;
 - (b) reporting incidents occurred;
3. a phase of risk monitoring, including monitoring of the change in risks and in the levels of risk and in the risk management processes;
4. a phase of risk reduction, including the following activities:
 - (a) tracing the risk identified and checks by auditors;
 - (b) setting control standards;
 - (c) insurance against risk.

Article 17. (1) Risk identification shall be initiated by a survey internal to each unit, which constitutes a fact-finding activity.

(2) In connection with risk identification, the directors of each directorate shall inform the Chief Executive Officer in an appropriate manner regarding the number of incidents detected, as well as information on the extent of damage sustained.

Article 18. (1) The purpose of the process of risk self-assessment and exercise of control shall be:

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1. to improve the timely identification of unidentified risks;
 2. to improve the assessment of the acceptability of the level of identified risks;
 3. to develop further and improve alternative mechanisms for unacceptable risk control;
 4. to facilitate application of timely and accurate action for risk reduction;
 5. to engage the separate units in the Exchange in the risk identification and assessment process and, in this way, achieve greater responsibility of Exchange employees for risk management.

(2) The results of the process of self-assessment and exercise of control shall be used to determine the value of risk quantifiers for the separate business functions.

Article 19. (1) The value of risk quantifiers provides information about the level of risk, whether the specific risks are in the pre-defined limits and whether action needs to be taken to reduce the said risks to a level tolerated by the company.

(2) The value of risk quantifiers shall be determined on the basis of results of the process of risk self-assessment and exercise of control.

(3) The directors of directorates shall identify the risk quantifiers related to the activities thereof.

(4) After assessment of the value of risk quantifiers, the Chief Executive Officer shall determine realistic levels of risk tolerance.

(5) The directors of directorates shall immediately notify the Chief Executive Officer upon the occurrence or ascertainment of new risk quantifiers or of values of the risk quantifiers exceeding the pre-set limit values.

Article 20. (1) The action taken in the phase of risk assessment shall be predetermined by the results obtained in the phase of risk identification. The assessment shall be determined by the relevant directorate which identifies the risk.

(2) Identified risks shall be analysed in terms of the following characteristics:

1. frequency of occurrence;
2. magnitude of impact.

(3) According to this assessment, risks shall be categorised as acceptable and unacceptable, according to the level of risk defined as tolerable for the Exchange.

Article 21. (1) On the basis of the results of risk assessment, possible measures for risk mitigation shall be determined. The residual risks after the implementation of the mitigation measures need to be assessed as well.

(2) Risk mitigation shall be necessitated in the cases where identified levels of risk exceed the levels defined as tolerable. Mitigation may be effected in the following manners:

1. avoidance of the relevant risk through discontinuance of the activity which gives rise to the said risk or through replacement of the said activity by an alternative activity;
2. reducing the probability of emergence of the relevant risk through implementation of control processes, improvement of surveillance of activity, training;
3. mitigating the effect of manifestation of the relevant risk through insurance;
4. transfer of the relevant risk to third parties, which are essentially exposed to the same type of risk;
5. advance identification and acceptance of part of the effect of the relevant risk, as intrinsic to the decision of the management bodies on proceeding with the relevant activity.

(3) Risk mitigation measures shall be approved by the Chief Executive Officer.

Article 22. (1) The risk monitoring process shall include the taking of specific action for risk reduction according to the measures approved. Taking such action shall be a responsibility of the directors of directorates.

(2) Directors of directorates shall assist the implementation of control mechanisms and the setting of internal control standards.

(3) Directors of directorates shall report back to the Chief Executive Officer.

Article 23. (1) The Exchange shall maintain an effective mechanism to report incidents occurred, whose objective shall be:

1. to assist in the building of an information base on losses caused by operational incidents;
2. to help augment the risk culture, respectively, an improvement of the risk management process and the possibilities for risk mitigation through improvement of the information on the actual cost of operational risk;
3. to measure periodically the value of incidents occurring as a result of operational risk, ensuring the management body a better possibility to reduce costs;
4. to improve the possibility of responding to significant operational incidents;
5. to bring into conformity the requirements of the statutory framework at the functional unit level;
6. to create a fully synchronised procedure for data collection and reporting, as well as avoidance of the duplication of information and omissions.

(2) Risk management policy shall require the immediate reporting of any incidents which are significant, of a threatening nature, having a bearing on the reputation of the company, of having an illicit or desecrating effect.

SUPPLEMENTARY PROVISIONS

§ 1. The terms used in these Rules, which are not defined, shall be understood within the meaning within which they are used in the POSA, the MFIA, the MAMAFIA and the statutory instruments on the application thereof, respectively in general commercial legislation and in commercial practice.

§ 2. Within the meaning given by these Rules:

1. “Clearing” shall be the procedure for determination of the receivables and obligations of each one of the Exchange members and the mutual offsetting of the said receivables and obligations in connection with the transactions in financial instruments as concluded.
2. “Settlement” shall be the procedure for fulfilment of the obligations to transfer cash and/or financial instruments in connection with transactions and the registration of the said transactions on an account with a depository institution.
3. “Depository institution” shall be the CD or another depository of financial instruments, designated in compliance with the requirements of Articles 100 and 101 of the MFIA.
4. “Clearing house” shall be the CD or another institution performing clearing functions, designated in compliance with the requirements of Article 101 of the MFIA.
5. “Cross transaction” shall be a transaction in which the Exchange-member buyer and the Exchange-member seller are one and the same person.
6. “Significant breach of the official duties” shall be the breach which is defined as such in a statutory instrument or an internal rule of the body which defined the article as such, and which breaches the obligations of the article defined in these rules. Assessment of the essentiality of the statutory instrument breach is performed by the respective competent body, and is the cases of internal rules – by the body having defined the article as such..

§ 3. The following abbreviations are used in these Rules:

1. “the Exchange” – Bulgarian Stock Exchange – Sofia AD or, respectively, the regulated market organised by Bulgarian Stock Exchange – Sofia AD.
2. “the Board” – the Board of Directors of Bulgarian Stock Exchange – Sofia AD.
3. “the Chief Executive Officer” – the Chief Executive Officer of Bulgarian Stock Exchange – Sofia AD.
4. “FSC” – Financial Supervision Commission
5. “CD” – Central Depository AD.
6. “the System” – the electronic trading system wherethrough the exchange trading is implemented.

TRANSITIONAL AND FINAL PROVISIONS

§ 1. These Rules shall be in force as from 20 November 2013.
