

BULGARIAN
STOCK
EXCHANGE-SOFIA



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STOCK EXCHANGE
SOFIA

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;
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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 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;
 - (e) establishment and management of a guarantee fund to guarantee the settlement of transactions in financial instruments concluded on the Exchange, established
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according to the procedure established by Chapter Four;

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 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;

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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:

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;
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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 BSE 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
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irregularities as ascertained.

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

1. natural disasters;
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 BSE;
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;
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- (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:

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.

Chapter Four GUARANTEE FUND

Section One GENERAL PROVISIONS

Article 24. This Chapter governs the establishment, functioning and operation of the Guarantee Fund with the Exchange (hereinafter referred to as “the Fund”) as a means of risk management in connection with the settlement of Exchange transactions.

Article 25. (1) The Fund shall guarantee the timely settlement of transactions in financial instruments concluded on the Exchange, regardless of the value of the said transactions, with the exception of cross transactions and bond transactions.

(2) The Fund shall not guarantee the settlement of any transactions concluded outside the markets of the Exchange, regardless of whether information on the said

transactions has been published according to the procedure established by Article 85 of the Trading Rules.

Article 26. (1) There shall be established a Guarantee Fund with Bulgarian Stock Exchange – Sofia AD.

(2) The Fund shall be transformed, dissolved and liquidated by decision of the Board of Directors of Bulgarian Stock Exchange – Sofia AD.

(3) Upon liquidation of the Fund, after payment of the obligations thereof, if any, the remainder of the property thereof shall be distributed among the Exchange members in proportion to the monthly deposits made by the said members and the income accrued from investment of the resources in compliance with the requirements of Article 34.

(4) Under the terms established by these Rules, the Fund:

1. shall pool the initial and monthly deposits of each one of the Exchange members;
2. shall invest the assets thereof in the eligible instruments according to the current Rules;
3. shall establish the facts and circumstances which have led to a delay in the settlement of Exchange transactions;
4. shall use the cash resources to cover obligations of defaulting Exchange members which are buyers in transactions in financial instruments;
5. shall use the cash resources for the purchase of financial instruments to cover the obligation of defaulting Exchange members which are sellers in transactions in the same financial instruments.

Section Two MANAGEMENT OF THE FUND

Article 27. (1) The Fund shall be managed by a Management Committee.

(2) The Management Committee shall consist of five members - natural-persons, who shall be designated as follows:

1. representative of the Exchange;
 2. representative of the Financial Supervision Commission;
 3. representative nominated by a particular banks' organization, in their capacity of a member of the respective organization;
 4. representative nominated by a particular investment intermediaries' organization,
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in their capacity of a member of the respective organization;

5. representative nominated by a particular organisation of public companies, in their capacity of a member of the respective organization;

(3) The members of the Management Committee under Articles 3, 4 and 5 of the preceding paragraph, shall represent solely the organizations that have nominated them for members of the Committee, unless they are dully authorized to represent other organizations.

(4) The members shall elect between them a Chairperson and a Deputy Chairperson of the Committee.

(5) Eligibility for designation as members of the Management Committee shall be limited to persons holding a degree of higher education in Economics and Law and possessing professional experience of at least 5 (five) years in the sphere of finance, banking, or trading in financial instruments.

(6) The term of office of the Management Committee shall be 5 (five) years. The members of the said Committee shall be re-eligible without limitation.

(7) The members of the Management Committee shall not receive compensation for the participation thereof in the said Committee.

Article 28. (1) The Management Committee shall meet at least once monthly.

(2) The meetings of the Management Committee shall be convened by the Chairperson and during his/her absence – by the Deputy Chairperson.

(3) The meetings of the Management Committee may be held even without the attendance of the members including cases when necessity for extraordinary meetings arises.

(4) The Management Committee shall adopt decisions by the approval of the majority of all attending members thereof, except the cases in which the current Rules shall provide for something else.

(5) Minutes shall be taken on the decisions of the Management Committee, and all members attending shall sign the said minutes. The minutes shall be kept in the premises of the Exchange.

(6) The Exchange shall publish on its web-site the Minutes of the Management Committee meetings. Under confidentiality concerns, the Management Committee may decide to publish a resume of its minutes. In such a case a copy of the full-length minutes of a meeting of the Management Committee shall be transmitted to the organizations under art. 27, (2).

Article 29. (1) The Chairperson of the Management Committee shall organise and direct the day-to-day operation of the Fund;

(2) The Deputy Chairperson shall perform the functions of the Chairperson in the cases of absence of the Chairperson.

Article 30. The following shall be ineligible for membership of the Management Committee:

1. any persons who have been members of a management or control body of, and general partners in, any corporation dissolved by bankruptcy and leaving any creditors unsatisfied;
2. any persons who are spouses or lineal or collateral relatives to any other member of the Committee up to the second degree of consanguinity;
3. any persons who have been convicted of a premeditated offence at public law;
4. any persons who are disqualified from occupying a position of property accountability.

Article 31. (1) The term of office of a member of the Management Committee shall be terminated prior to the expiry of the said term if it is established that:

1. any circumstance covered under Article 30 exists in respect of the said member;
2. the said member is actually unable to discharge the duties thereof in the course of a period exceeding 6 (six) months;
3. the said member has committed a significant breach of the official duties thereof;
4. the said member damages the interests of the Fund by the activities thereof.
5. there is diselection and nomination of a new representative of the respective institution.

(2) The circumstances covered under Paragraph (1) shall be established, and the term of office of a member of Management Committee shall be terminated, by decision of the designating body.

(3) The Management Committee:

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1. shall determine and shall organise the pooling in the Fund, in accordance with these Rules, the initial and the monthly deposits of each one Exchange member;
 2. shall designate the depository bank wherewith the initial and the monthly deposits in the Fund shall be made, and shall determine the criteria for selection of such a bank;
 3. shall conduct quarterly verification of the designated depository bank, under Item 2 for meeting the set criteria and if necessary to designate a new depository bank;
 4. shall designate the Exchange members, acting on behalf of the Fund upon the performance of purchases of financial instruments for the purpose of covering obligations upon the settlement of Exchange transactions;
 5. shall conduct annual verification of the Exchange members, under Item 4 for meeting the set criteria and if necessary to designate new Exchange members;
 6. shall determine the rate of interest rate, charged on the obligations of Exchange members in connection with the use of resources from the Fund to cover the said obligations;
 7. shall confirm the appointment of a Secretary General
 8. shall issue mandatory instructions regarding the investment of the resources of the Fund;
 9. shall organise the use of the resources from the Fund to cover the obligations of defaulting Exchange members on settlement of transactions in financial instruments on the Exchange;
 10. shall empower the Secretary General to prepare quarterly reports regarding the amount and structure of the assets of the Fund, the amount of the resources accumulated as a result of the pooled monthly deposits made by each Exchange Member and the resources used to cover obligations in connection with settlement of transactions;
 11. shall opine on drafts of statutory instruments in the sphere of trading in financial instruments.

(4) Decisions of the Management Committee, which execution requires dispositive actions with assets of the Fund, shall be signed by the Executive Director. The Executive Director shall be obliged to bring into action the decisions of the Management Committee within 1 (one) working day after the adoption of the decision.

(5) The decision of the Management Committee concerning the determination, respectively the change, of the interest rate according to Item 4 of Paragraph (3), shall be obligatory motivated and based on the following criteria:

1. conformity with the other reference interest rates;
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2. conformity with the levels of the current spreads above the reference lending rates based on similar credit risk and periods;
 3. non allowing misuse of resources from the Fund;
 4. observation of the market principle during its determination, appropriate with the respective risk associated with the use of resources from the Fund.

Article 32. Each member of the Management Committee, the Secretary General, as well as each Exchange employee, shall be obligated to disclose in writing to the Management Committee any commercial, financial or other business interest which affects the Fund, the use of the resources from the Fund or the interests of the Fund.

Section Three RAISING OF RESOURCES IN THE FUND

Article 33. The resources of the Fund shall be raised from the following sources:

1. the initial deposits of the Exchange members;
2. the monthly deposits of the Exchange members;
3. the income from investment of the resources raised in the Fund;

Article 34. (1) The deposits of Exchange members and the income from their investment shall be accumulated in an individual account of each member and may not be used to cover expenses of the Exchange.

(2) The resources referred to in Paragraph (1) shall be reported by the Fund, respectively by the Exchange, as obligations towards each of the members.

(3) The resources referred to in Paragraph (1) shall be subject to refund when a decision for liquidation of the Fund is taken by the Board.

(4) Upon termination of Exchange membership, the resources referred to in Paragraph (1), accumulated in the individual account, shall be refunded to the respective Exchange member, after deducting its obligations towards the Fund.

Article 35. (1) The initial deposit of each one Exchange member shall be made in a lump sum after conclusion of the membership agreement and shall amount to BGN 1,000 (one thousand leva).

(2) The Exchange member concerned shall not be granted access to the Trading

System before making the initial deposit.

Article 36. Each Exchange member shall mandatorily name an expressly designated account with the depository-bank as a back-up account for servicing the transactions in financial instruments under a special management regime according to Annex 23 to the Rules of the CD.

Article 37. The Fund shall grant express consent to the use of resources from the account referred to in Article 36 to cover obligations on Exchange transactions for each particular case.

Article 38. The monthly deposits to the Fund shall be determined on the basis of the turnover of Exchange transactions realised by each Exchange member for the last preceding calendar month, not considering cross transactions and bond transactions.

Article 39. The amount of the monthly deposit due from each member shall equal 0.005% (zero point zero zero five per cent) of the turnover defined according to the procedure established by Article 38.

Article 40. (1) The pooling of deposits determined according to the procedure established by Article 39 shall be discontinued if the total amount of assets of the Fund exceeds 0.5% (zero point five per cent) of the value of the turnover for the last 12 (twelve) months, according to the procedure established by Article 38.

(2) When the value of the assets of the Fund falls below the value referred to in Paragraph (1), the Exchange members shall resume the pooling of deposits thereof, reckoned from the calendar month next succeeding the month during which the deficit was ascertained.

(3) The Secretary General conducts a monthly verification of the Fund's assets and the adherence to Articles (1) and (2).

Section Four

GUARANTEEING TRANSACTIONS WITH RESOURCES FROM THE FUND

Article 41. The resources accumulated in the Fund shall be used to cover the obligations of members in connection with Exchange transactions concluded after the expiry of a minimum time limit established in these Rules.

Article 42. The maximum discharge of the Fund shall be limited to the total amount of its assets.

Article 43. (1) The Secretary General shall check, on a daily basis, all Exchange transactions unsettled within the regular settlement cycle, with the exception of cross transactions and bond transactions.

(2) If a particular transaction is delayed for more than 7 (seven) working days after the date at which it have had to be concluded without delay (the date of usual settlement) the Secretary General shall notify the Chairperson of the Management Committee of the Fund and shall check the facts and circumstances which have led to the delay.

(3) The Exchange members shall co-operate upon the establishment of the reasons which have led to the delay.

(4) After receipt of the notification referred to in Paragraph (2), the Chairperson shall immediately convene a meeting of the Committee for the next working day.

(5) At the meeting as scheduled, the Management Committee shall consider the facts and circumstances which have led to non-settlement of the transaction concerned and shall adopt a decision on covering by the Fund of the delivery obligation. In case of necessity the Management Committee may take a decision for selling instruments in which the Fund has invested for the purpose of ensuring enough cash resources.

(6) The Management Committee may adopt a decision that the Fund be not used solely if:

1. the Committee has good reason to believe that the transaction will be settled on the next 2 (two) working days; or
2. the resources of the Fund are insufficient for the full covering of the obligations of the respective member upon the settlement of the delayed transaction; or
3. the use of resources of the Fund for its settlement would lead to strongly unfavourable consequences for the capital market.

(7) In the cases referred to in Items 1 and 3 of Paragraph 6, the decision of the Committee shall be motivated in written form.

(8) For transactions worth more than BGN 500,000 (five hundred thousand leva), the decision referred to in Paragraph 5 shall be taken by the Committee with unanimity

and having a quorum of all members.

Article 44. (1) When the transaction concerned, in respect of which a decision on use of the Fund has been adopted, has been delayed as a result of a deficit of cash resources on the part of the buyer, the Fund shall accede to the obligation of the defaulting member, granting consent that the cash settlement of the delayed transaction be performed through use of resources from the Fund.

(2) The Exchange member shall submit an order to the CD for cash settlement, stating therein that the said settlement be performed by means of the back-up account referred to in Article 36, but only after an express consent for that on the part of the Fund.

(3) After settlement of the transaction, an obligation to reconstitute the resources to the Fund shall arise for the Exchange member concerned.

(4) The amount due, the transaction costs of the transfer and the interest due shall be included in the next monthly deposit as an addition.

Article 45. (1) When the transaction concerned, in respect of which a decision on use of the Fund has been made, has been delayed as a result of a deficit of financial instruments on the account of the seller, the Fund shall take the steps necessary for the purchase of the said instruments.

(2) The purchase of the necessary financial instruments shall be performed according to the standard procedure, with the Fund, acting through the Secretary General, submitting an order to one or more of the Exchange members designated by the Management Committee to perform purchases of financial instruments for the purpose of covering obligations upon the settlement of Exchange transactions.

(3) The price of the order to purchase the financial instruments in deficit may not be higher than the highest of the following prices:

1. 150% (one hundred and fifty per cent) of the closing price of the financial instruments concerned for the previous working day;
2. the highest price of a buy order in the order book of the System;
3. the highest price of a sell order in the order book of the System.

(4) If there is a possibility to implement the purchase of the instruments in deficit through more than one transaction, the Fund shall be guided by the principle of

minimising the total value thereof.

(5) After settlement of the transaction for purchase of the financial instruments, the Fund shall transfer the said instruments to the defaulting Exchange member by means of a new conclusion concluded outside the regulated market.

(6) The defaulting Exchange member shall not have the right to refuse to receive the necessary instruments.

(7) Upon receipt of the financial instruments for the Fund, an obligation to the Fund, to the amount of the sum total of the value of the said instruments and all other costs incurred by the Fund in connection with the purchase of the said instruments, shall arise for the Exchange member concerned.

(8) The financial instruments received shall be blocked and may not be used for any purposes other than the settlement of the transaction in connection with which the said instruments have been purchased.

(9) If, as a result of the purchase of the financial instruments, the Fund acquires a right to participate in an increase of capital, dividend or another right or payment associated with the financial instruments, the Fund shall transfer the said right to the non-defaulting party to the delayed transaction separately.

(10) The total value of the purchase of the instruments in deficit, the transaction costs of the said purchase, the interest due and any obligations arising for the Fund as a result of the purchase and the succeeding transfer, including taxes, shall be included in the next monthly deposit due as an addition.

Article 46. (1) If after the expiry of a period of 10 (ten) working days from the submission of the order referred to in Article 45 (2) the Fund cannot purchase the instruments in deficit, the transaction concerned shall be marked by the Fund as impossible to settle.

(2) The Fund shall abandon further action for purchase of financial instruments in connection with the transactions so marked as impossible to settle.

(3) Any financial instruments purchased prior to the expiry of the period referred to in Paragraph (1) shall be transferred according to the procedure established by Article 45 (5), with Article 45 (6) to (10) applying *mutatis mutandis*.

(4) Notwithstanding Paragraph (2), the obligations of the parties to the transaction for the settlement shall not be extinguished.

Article 47. (1) Where the transaction concerned, in respect of which a decision on use of the Fund has been adopted, has been delayed as a result of deficit of cash resources as well as of financial instruments, the Fund shall take the necessary action under Article 44 and Article 45 simultaneously.

(2) For the purposes of Paragraph (1), a transaction shall be presumed delayed through the fault of both parties thereto solely if there is a deficit on the cash resources account of the buyer and on the financial instruments account of the seller at the day last preceding the day of adoption of a decision by the Committee on use of the Fund.

(3) Article 44 and Article 45 shall apply, *mutatis mutandis*. In such case, the defaulted obligation shall equal the sum total of the defaulted obligations to purchase the financial instruments and to deliver the said instruments.

Article 48. The transactions in respect of which a decision on use of the Fund has been adopted shall be settled solely according to the procedure established by Article 44 and/or Article 45, with the exception of the cases referred to in Article 46.

Article 49. (1) In the cases where obligations arise on more than one transaction, the said obligations shall be discharged by the Fund in the order in which they have arisen.

(2) When covering obligations in connection with a delayed transaction on the part of an Exchange member, the resources accumulated on the account of the same Exchange member shall be used on a priority basis.

(3) When the resources accumulated on the account of the defaulting Exchange member are insufficient for the full covering of its obligation concerning the settlement of the transaction, the resources accumulated on the accounts of the other members shall be used proportionately.

Article 50. (1) Deposits in the Fund shall be made solely in Bulgarian leva.

(2) Within 3 (three) working days after the end of each calendar month, the

Management Committee on the ground of a formal proposal by the Secretary General shall determine the value of the monthly deposit due from each Exchange member, as well as the amount of the obligations of the Exchange member in connection with use of resources from the Fund, determined according to the procedure established by Article 44 (4) and Article 45 (10).

(3) The Fund shall send all Exchange members a notice within 1 (one) working day after the decision of the Management Committee whereby the amount of each deposit is determined.

(4) The Exchange members shall allocate sufficient resources in their accounts with the Exchange servicing bank, no later than the 15th calendar day of every month. The Exchange shall remit the deposits to an account with the depository bank within 1 (one) business days after debiting the members' accounts.

(5) After receipt of the amounts determined according to the procedure established by Article 44 (4) and Article 45 (10), the Fund shall apportion the said amounts back to the individual accounts of the Exchange members.

Section Five

INVESTMENT OF THE FUND'S RESOURCES, REPORTING AND CONTROL

Article 51. (1) The resources in the Fund, raised on an account with the depository bank, may be invested solely in securities issued or guaranteed by the Bulgarian State, in bank deposits, as well as in government bonds issued by Eurozone countries with a credit rating equal or higher than the currently highest credit rating awarded to Republic of Bulgaria.

(2) The total value of free cash resources and the instruments in which the Fund has invested shall form its assets.

(3) Avoidance of risk and maximising the liquidity of assets shall be an underlying principle upon the investment of the resources.

(4) The Fund shall maintain up to 50% (fifty per cent) of its assets in a current account at the depository bank. The fund may invest up to 50% (fifty per cent) in bank deposits and up to 20% (twenty per cent) in securities under Paragraph (1).

(5) Not less than 10% (ten per cent) of the assets of the Fund must be cash

resources on sight bank deposits or on time deposits with a maximum maturity of three months or debt securities issued or guaranteed by the Bulgarian State with a residual period to maturity of up to 90 (ninety) days.

Article 52. (1) The Management Committee shall designate a Secretary General from amongst the Exchange personnel and nominate it for approval by the Management Committee.

(2) The Secretary General must hold a degree of higher education in Economics and must possess professional experience of at least 1 (one) year in the sphere of finance, banking or trading in financial instruments.

Article 53. (1) The Secretary General shall be responsible for the selection of the specific financial instruments in which the assets of the Fund shall be invested, in strict conformity with the mandate for permanent liquidity and the requirements of these rules.

(2) Investing the assets in the proposed financial instruments is subject to approval by the Management Committee.

(3) During the absence of the Secretary General, his/her duties shall be performed by the representative of the Exchange in the Management Committee.

(4) The Secretary General shall monitor, on a daily basis, the asset value of the Fund and the conformity of the structure of the said assets with Article 51.

(5) Upon ascertainment of a fall in the market value of the assets of the Fund for more than 3 (three) consecutive working days or by more than 1% (one per cent) within 1 (one) working day, with the exception of the cases of use of the Fund to cover obligations, the designated employee shall notify the Chairperson of the Management Committee of the fall, as well as of the reasons which have led to the said fall.

(6) The Chairperson may convene a meeting of the Management Committee for consideration of the reasons which have led to a fall of the assets of the Fund.

Article 54 (1) The Secretary General shall prepare an annual report to each Exchange member, which shall state as a minimum:

1. the total amount and the structure of the assets of the Fund;
 2. the amount of the resources accumulated on the individual account of the
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Exchange member concerned;

3. information on the interest received and other income in connection with the investment of the resources of the Fund since the beginning of the calendar year and until the end of the month to which the report applies;

4. information on use of resources from the Fund to cover obligations in connection with Exchange transactions during the expired month.

(2) The report shall be sent to the Exchange members within 10 (ten) working days after the end of each calendar year.

(3) Upon extraordinary request on behalf of an Exchange member, the report under Paragraph 1 shall be prepared and sent to the said member within 10 (ten) working days as of receipt of the request with the Exchange.

(4) Upon instruction by the Management Committee the Secretary General shall organize the reimbursement of the said exchange member with the amount accumulated in its individual account in compliance with the requirements of Articles 34 (4).

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 26 May 2011.

§ 2. Article 35 (1) shall not apply in respect of the Exchange members, which made an initial deposit, determined according to the procedure established by Article 117 (1) of the Rules and Regulations of the Exchange in force until 16 June 2008.

§ 3. The initial deposit to the Guarantee Fund referred to in Article 35 (1), due from investment intermediaries, admitted to Exchange membership in the period as of 16 June 2008 until coming in force of these Rules, shall be made within 1 (one) month.
