

# **Ordinance No. 15**

## **of 4 October 2007**

### **on the Control over Transactions in Government Securities**

(Published in the Darjaven Vestnik, issue 85 of 23 October 2007)

#### *Chapter One*

#### **General Provisions**

**Article 1.** (1) This Ordinance shall establish the procedure and manner of regulation and control over transactions in book-entry government securities, issued by the Minister of Finance on the domestic market, hereinafter referred to as ‘government securities’.

(2) This Ordinance shall not apply to the control over transactions in government securities executed on regulated markets in financial instruments and multilateral trading facilities.

**Article 2.** The regulation and control over transactions in government securities are intended to ensure compliance with the provisions of the Law on the Government Debt, Ordinance No. 5 of 2007 on the Terms and Procedure for Acquisition, Registration, Redemption and Trade in Government Securities (Ordinance No. 5 of 2007), Ordinance No. 31 of 2007 on Government Securities Settlement (Ordinance No. 31 of 2007) and the instructions issued by the Minister of Finance and the Governor of the BNB.

**Article 3.** The regulation and control over transactions in government securities shall ensure a fair, effective and transparent market of government securities, protect investors’ interests and reduce to a minimum the risks in the systems for registration of government securities in compliance with the Recommendations for Securities Settlement Systems developed and adopted by the Committee on Payment and Settlement Systems (CPSS) and the Technical Committee of the International Organization of Securities Commissions (IOSCO), as well as the Standards of the European System of Central Banks (ESCB) and the Committee of European Securities Regulators (CESR) for Securities Clearing and Settlement Systems in the European Union.

#### *Chapter Two*

#### **Selection of Government Securities Primary Dealers**

**Article 4.** (1) Government securities primary dealers shall be:

1. banks whose license includes the services and activities under Article 2, paragraph 2, items 8 and 9 of the Law on Credit Institutions, including such of other Member States;

2. investment intermediaries which have been granted a license to conduct investment services and activities pursuant to the Law on Markets in Financial Instruments, including such of other Member States.

(2) Persons under paragraph 1 who apply to become government securities primary dealers shall be participants in the electronic system for registering and servicing government securities trading (ESROT) and to have own cash account opened with the BNB.

(3) Banks which are not subdepositories of government securities as well as investment intermediaries shall have an effective contract with a government securities subdepository bank, and shall hold their own current account opened with the BNB.

(4) Persons under paragraph 1 applying to become government securities primary dealers shall have qualified personnel with sufficient knowledge and professional experience to work in the government securities market. The qualification of each employee is initially ascertained by means of a written test developed by the Ministry of Finance. After successfully passing the test, the employees are authorized to conclude transactions in government securities.

**Article 5.** Government securities primary dealers shall be selected by a commission designated by the Minister of Finance. The commission shall hold sessions at least once annually and select government securities primary dealers for a period of one year.

**Article 6.** (1) Primary dealers shall be selected on the basis of criteria for selection of government securities primary dealers approved by the Minister of Finance.

(2) The commission shall draw up a list of the applicants for primary dealers who meet the criteria for selection of government securities primary dealers. The Minister of Finance shall approve the list of primary dealers. The list of primary dealers is published on the Ministry of Finance website.

(3) The criteria for selection of government securities primary dealers contain the main requirements to the participants in the primary market of government securities, which the latter shall fulfill in case they wish to perform activities as primary dealers.

**Article 7.** (1) The applicant for a primary dealer shall file an application to the Ministry of Finance declaring that he meets the criteria for selection of government securities primary dealers and will fulfill them upon selection for the respective period of time.

(2) The application under paragraph 1 shall be signed by the persons representing the applicant for a government securities primary dealer.

(3) The following documents shall be enclosed to the application under paragraph 1:

1. a copy of the license for an investment intermediary or a bank;
2. a copy of the agreement concluded with a subdepository bank in case the applicant for a government securities primary dealer is not a subdepository of government securities;
3. a unified tariff on fees and commissions related to the government securities transactions and services provided;
4. a financial standing certificate;
5. internal rules for government securities transactions and a declaration for availability of an effective and sound internal control system;
6. a list of the primary dealer's employees, according to the requirements of Article 4, paragraph 4, who are authorized to carry out transactions in the primary market of government securities.

(4) The documents under this Ordinance issued in a foreign language shall be accompanied by a verified Bulgarian language translation.

(5) The primary dealers shall notify the Ministry of Finance within a one-week period of any change in the documents under paragraph 3, occurred in the period for which they have been selected.

**Article 8.** (1) The investment intermediaries and banks approved to be government securities primary dealers shall conclude an agreement with the Ministry of Finance for primary dealership in government securities.

(2) The primary dealership agreement shall specify the primary dealer's underlying rights and obligations, the terms and conditions under which the agreement could be terminated in advance, as well as other circumstances relevant to the relations between the primary dealers and the issuer of government securities.

(3) Where the criteria for selection of government securities primary dealers have been changed or the rights, obligations or some other terms stipulated in the primary dealership agreement have been modified, the parties shall sign an annex to the agreement.

(4) The primary dealership agreement shall be automatically terminated in case the primary dealer has not been selected for the subsequent one-year period.

(5) The Minister of Finance may exclude a primary dealer from the list of primary dealers upon:

1. failure of the primary dealer to observe the criteria and requirements under which he has been selected as a primary dealer;
2. failure of the primary dealer to observe the provisions of this Ordinance or Ordinance No. 5 of 2007;
3. infringement of one or more obligations under the primary dealership agreement.

### *Chapter Three*

## **Organization and Scope of the Control**

**Article 9.** Control over the systems for registration of government securities transactions in the BNB and subdepositories of government securities shall be exercised by the Ministry of Finance and the Bulgarian National Bank.

**Article 10.** (1) The Bulgarian National Bank and the Ministry of Finance shall jointly exercise control over the systems for registration of government securities transactions maintained by subdepositories of government securities pursuant to Article 24 of Ordinance No. 5 of 2007 with regard to:

1. availability of an automated register of individual government securities accounts recording the government securities acquired by their customers and by the customers of those ESROT participants, who are not subdepositories of government securities, with which they have concluded a contract;

2. other requirements determined by the Ministry of Finance and the BNB.

(2) For the purposes of control the BNB shall carry out:

1. reconciliation of the data in the ESROT system and the statements received electronically by the participants in the system concerning the total amount of government securities acquired by them and by their customers at nominal value (Appendix 1);

2. reconciliation of the data from the statements received under Appendix 1 concerning the total amount of government securities owned by the customers of those participants in ESROT, who are not subdepositories of government securities, and the data from the statements received electronically by subdepositories (Appendix 2).

(3) The reconciliations under paragraph 2 shall be effected daily, weekly and monthly according to the instructions of the Ministry of Finance and the BNB.

**Article 11.** (1) The Bulgarian National Bank shall organize and exercise daily control over the registration and accounting of government securities transactions in the primary and secondary markets in compliance with the effective legislation through operating procedures and mechanisms employed, and shall carry out daily reconciliation of the data on government securities kept in the ESROT system and data in the Government Securities Settlement System (GSSS).

(2) In compliance with the established international standards, recommendations and information disclosure programmes on depository systems activities, developed and adopted by the specialized international organizations, the BNB shall report periodically the functional parameters of the systems ESROT and GSSS by means of completing the respective questionnaires, on which the assessments compiled by rating agencies are based. The reports are published on the BNB website.

## *Chapter Four*

### **Control and Powers of the Controlling Bodies**

**Article 12.** Control over registration of government securities transactions shall be based on reports, statements, information and other documents submitted by ESROT participants monthly, quarterly or at the request of the Ministry of Finance and the BNB according to the requirements of this Ordinance, Ordinance No. 5 of 2007 and Ordinance No. 31 of 2007.

**Article 13.** (1) On-site inspection of subdepositories of government securities shall be carried out jointly by officials of the Ministry of Finance and the BNB based on an order issued by the Minister of Finance and the Governor of the BNB or other persons authorized by them.

(2) Controlling persons shall have the right to:

1. a free access to the premises and documentation of examined persons concerning transactions in government securities;
2. require additional statements, information and other documents related to the inspection.

**Article 14.** Controlling persons shall keep bank and professional secrecy with regard to the information revealed in the course of the inspection.

**Article 15.** Managers and employees of examined persons shall provide assistance to the representatives of the Ministry of Finance and the BNB during the inspection.

**Article 16.** Persons carrying out the inspection shall:

1. analyze the examined activity;
2. draw conclusions on the compliance of the documents presented under Article 12 with the requirements of this Ordinance, Ordinance No. 5 of 2007 and Ordinance No. 31 of 2007;
3. draw up a findings statement of the inspection in triplicate; one of the copies shall be submitted to the examined persons.

**Article 17.** Upon ascertaining infringements, the controlling persons shall notify the Minister of Finance and the Governor of the BNB, who, within their competences, may, personally or through persons authorized by them, undertake the following enforcement measures:

1. a written warning;
2. an exclusion from the lists of participants in the System for conducting government securities auctions (GSAS) and ESROT under Ordinance No. 5 of 2007;
3. an exclusion from the list of primary dealers of government securities.

## **Transitional and Final Provisions**

**§ 1.** This Ordinance is issued pursuant to Article 36, paragraph 2 of the Law on the Government Debt and shall enter into force as of 1 November 2007.

**§ 2.** This Ordinance repeals Ordinance No. 15 of 2002 on the control over transactions in book-entry government securities (published in the Darjaven Vestnik, issue 119 of 2002; amended, issue 38 of 2006)

**§ 3.** Persons approved by the Minister of Finance and the Governor of the Bulgarian National Bank as primary dealers for the period between 1 July 2007 and 31 October 2007 shall continue to be primary dealers until 31 March 2008, performing their activity pursuant to Ordinance No. 5 of 2007 on the Terms and Procedure for Acquisition, Registration, Redemption and Trade in Government Securities.

**§ 4.** Banks which are not subdepositories of government securities as well as the investment intermediaries under § 3 shall conclude a contract with a government securities subdepository bank not later than 30 November 2007.

**§ 5.** The Bulgarian National Bank and the Ministry of Finance shall jointly and individually issue instructions on the enactment of this Ordinance.



Appendix 2  
to Article 10, paragraph 2, item 2

**INFORMATION**  
**on government securities kept by .....** ,  
(subdepository)  
**held by customers of ESROT participants which are not**  
**subdepositories as of .....**  
(date)

ESROT participant which is not a subdepository	Type of currency	ISIN code of the issue	Total government securities held by customers (at nominal value)
I. Name of the participant		Short-term	
		1	
		2	
		3	
		-	
		Short-term, total	
		Medium-term	
		1	
		2	
		3	
		-	
		Medium-term, total	
		Long-term	
		1	
		2	
		3	
		-	
		Long-term, total	
		<b>Customers' government securities held by the participant, total</b>	
II. Name of the participant		Short-term	
		1	
		2	
		3	
		-	
		Short-term, total	
		Medium-term	
		1	
		2	
		3	
		-	
		Medium-term, total	

		Long-term 1 2 3 -	
		Long-term, total	
		<b>Customers' government securities held by the participant, total</b>	
III. Name of the participant		Short-term 1 2 3 -	
		Short-term, total	
		Medium-term 1 2 3 -	
		Medium-term, total	
		Long-term 1 2 3 -	
		Long-term, total	
		<b>Customers' government securities held by the participant, total</b>	

