



Bulgarian National Bank

RULES AND PROCEDURES

FOR THE USE OF THE GOVERNMENT SECURITIES REGISTRATION AND SETTLEMENT SYSTEM AT THE BNB - BNBGSSS

Version 1.0. of May 2023

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List of Abbreviations

BNB	Bulgarian National Bank
GSD	Government securities depository
GS	Government securities
ESROT	Electronic System for Registration and Servicing of Trades in Government Securities
RSP	Register of Special Pledges
LPSPS	Law on Payment Services and Payment Systems
MoF	Ministry of Finance
CBIS	Core banking information system
CSD	Central securities depository
GSSA	Government Securities Settlement Accounts
BNBGSSS	Government Securities Registration and Settlement System at the BNB
CPMI	Committee on Payments and Market Infrastructures
IOSCO	Technical Committee of the International Organisation of Securities Commissions
FoP	Free of payment (with no cash movement)
DvP	Delivery versus payment
PFoD	Payment free of Delivery (payment without delivery)
RINGS	Real Time Gross Settlement System
TARGET (T)	Trans-European Automated Real-time Gross Settlement Express Transfer System of a new generation
TARGET-BNB (T-BNB)	The national system component of TARGET, operated by the BNB

1. Overview

1.1. Introduction

The Bulgarian National Bank (BNB) is the central depository and the fiscal agent of the Government under the Law on the Bulgarian National Bank and the Government Debt Law. The Bulgarian National Bank is the operator of the System for registration, servicing and settlement of trade in government securities – BNBGSSS (the System). BNBGSSS is notified with finality of settlement according to Directive 98/26/EC of the European Parliament and of the Council of 19 May 1998 on settlement finality in payment and securities settlement systems, amended by Directive 2009/44/EC of the European Parliament and of the Council of 6 May 2009 (Directive 98/26/EC). BNBGSSS consists of the Electronic System for Registration and Servicing of Trades in Government Securities (ESROT) and the System of Government Securities Settlement Accounts (GSSA). ESROT has a built-in module for the Register of Special Pledges (RSP). ESROT and GSSA are connected through a direct interface for automated data exchange. BNBGSSS is connected as an ancillary system to the national system component TARGET-BNB.

These rules and procedures for the use of BNBGSSS are intended for the System participants, the Ministry of Finance (MoF) and the BNB.

1.2. Subject matter of the rules

These rules and procedures establish the way in which trades and transactions in government securities are registered, serviced and settled in BNBGSSS.

1.3. Grounds for the drawing up and the issuance of this document

These rules and procedures are issued pursuant to Regulation (EU) No 909/2014 of the European Parliament and of the Council on improving securities settlement in the European Union and on central securities depositories and amending Directives 98/26/EC and 2014/65/EU and Regulation (EU) No 236/2012. These rules and procedures have been drawn up in accordance with the requirements of:

- the Law on the Bulgarian National Bank;
- the Government Debt Law;
- Ordinance No 5 of the MoF and the BNB on the Procedure and Terms for Acquisition, Registration, Redemption and Trade in Government Securities (Ordinance No 5);
- BNB Ordinance No 15 on the Control over Transactions in Government Securities (Ordinance No 15);
- BNB Ordinance No 31 on Government Securities Settlement (Ordinance No 31);

1.4. Adoption and amendments

These rules are approved, amended and adopted by the Deputy Governor in charge of the Banking Department of the BNB. The Bulgarian National Bank notifies the BNBGSSS participants of any changes to the rules at least fourteen calendar days before they come into effect.

1.5. Definitions

For the purposes of these rules and procedures the following definitions apply:

1.5.1. **Bank** means:

- a bank licensed by the BNB to conduct banking activity;
- a branch of a bank established in a third country, licensed by the BNB under the Law on Credit Institutions;
- a branch of a bank established in a Member State, operating in the territory of the Republic of Bulgaria under Articles 20 and 21 of the Law on Credit Institutions.

1.5.2. **Business identifier code (BIC)** means a code issued by SWIFT (Society for Worldwide Interbank Financial Telecommunication) to financial and non-financial institutions under ISO Standard No 9362.

1.5.3. **Future value date** – the successfully input-checked notifications of/requests for GS transactions, sent by the participants, are stored in BNBGSSS until the value date of their execution.

1.5.4. **Value date** means the date on which settlement of government securities takes place.

1.5.5. **Investment intermediary** – according to the Law on Markets in Financial Instruments, an investment intermediary means an entity which provides one or more types of investment services and/or performs one or more types of investment activities.

1.5.6. **Request for a transaction** means a request in a pre-determined format sent to BNBGSSS, by which a counterparty to a GS transaction is registered.

1.5.7. **Moment of entry** – successful entry check of requests for transactions in accordance with the technical requirements of the system.

1.5.8. **Moment of irrevocability of a request for a GS transaction** means the time when the details in two participants' requests for GS transactions in BNBGSSS match.

1.5.9. **Moment of finality** – the settlement for transactions with GS securities is final after the account of the acquirer (purchaser) of GS has been credited.

1.5.10. **Failed settlement** means a failure to settle a GS transaction on the agreed settlement date for lack of government securities or cash, whatever the reason for that lack may be.

1.5.11. **Operational risk** means the risk of a breakdown of some information, technical or communications equipment or of human errors, which creates circumstances that are critical to settlement.

1.5.12. **GS sub-depository** – GS sub-depositories can be credit institutions under the Law on Credit Institutions, whose licence includes the activities referred to in Article 2, paragraph 2, items 4 and 9 of the Law on Credit Institutions, as well as institutions authorised to act as a central depository in the relevant Member State.

1.5.13. **GS primary dealer** - GS primary dealers can be banks whose licence includes the services and activities defined in the Law on Credit Institutions, including those from other Member States; investment intermediaries licensed to carry out investment services and activities under the Law on Markets in Financial Instruments, including those from other Member States. The MoF chooses the primary dealers, applying selection criteria which are approved by the Minister of Finance.

1.5.14. **Transferor** means an entity transferring government securities from its securities settlement accounts.

1.5.15. **Acquirer** means an entity acquiring government securities on its securities settlement accounts

1.5.16. **Settlement of GS transactions** means the transfer of government securities with or without a concurrent transfer of funds based on a request for/notification of a transaction sent via BNBGSSS. This is delivery of securities against a cash payment occurring at the same time.

1.5.17. **System day** means a pre-determined time interval during which instructions for GS settlement are received and processed in BNBGSSS.

1.5.18. **Securities settlement account** means an account with the central bank or a settlement agent, which is used for keeping government securities or for settling GS transactions between System participants.

1.5.19. **Cash settlement account** means an account with the central bank or a settlement agent, which is used for keeping funds or for settling transactions between System participants. Cash settlement accounts can be held in BGN in RINGS and in euro in TARGET2.

1.5.20. **RINGS** means the Real Time Gross Settlement System for payments in BGN.

1.5.21. **TARGET** means Trans-European Automated Real-time Gross Settlement Express Transfer System of a new generation.

2. Main types of services and core principles of BNBGSSS operation

2.1. Services provided by BNBGSSS.

2.1.1. Main types of services:

2.1.1.1. Initial registration in the book-entry GS system (registration services);

2.1.1.2. Opening and maintaining GS accounts at the highest level (central maintenance services);

2.1.1.3. Managing a GS settlement system (settlement services).

2.1.2. Non-banking-type ancillary services.

Non-banking-type ancillary services, provided by BNBGSSS, which give rise to no credit or liquidity risks:

2.1.2.1. Settlement services – matching settlement instructions, transmitting instructions, confirming transactions, checking transactions;

2.1.2.2. Registration services and central maintenance services:

- executing corporate actions;
- registering new issues of government securities;
- transmitting and processing instructions, collecting and processing fees, and the related reporting;

2.1.2.3. Establishing connections to central depositories, keeping and managing GS accounts relating to settlement services and collateral registration;

2.1.2.4. Other services:

- reports produced under regulatory requirements;
- information provided to other directorates at the BNB, to the MoF and

international credit rating agencies.

BNBGSSS does not provide any banking-type ancillary services.

2.2. Core principles of BNBGSSS operation

- provides automated end-to-end processing - Straight-through Processing (STP);
- conducts 'trade by trade' processing in real time (DVP – Model 1), with a settlement cycle in the secondary OTC market T+0, in the regulated market operated by the Bulgarian Stock Exchange AD - T+2, and from T+0 to T+2 on the E-Bond Bulgaria multilateral trading facility;
 - operates on the double notification principle, i.e. one request for/notification of a transaction from each counterparty;
 - uses SWIFT under the international standard ISO 15022, and a web-interface (based on a VPN environment) with a qualified electronic signature (QES), as equivalent communication facilities;
 - uses the International Securities Identification Numbering system (ISIN code);
 - enables the participants, at each stage of the processing, to monitor in real time the status of their requests for/notifications of GS transactions;
 - automatically calculates the principal and interest amounts due by the issuer by issues of government securities, in total and by participants, using the maintained database and the incorporated interest rate conventions, in accordance with the conditions of each issue;
 - automatically generates aggregated and detailed information on the government securities market for the needs of the System participants, the issuer, the ECB's statistics, etc., using the statistical module set up in the System;
 - notifies the System participants of any circumstances relating to corporate actions, such as principal and interest payments due on maturing government securities, and of the completed settlement of these payments.

3. Participation in BNBGSSS.

3.1. Participants in BNBGSSS can be:

- GS primary dealers;
- GS sub-depositories;
- investment intermediaries which are not primary dealers and whose licence includes the services and activities referred to in Article 5, paragraph 2, items 1, 2 and 3 of the Law on Markets in Financial Instruments, including those from other Member States;
 - banks which are not primary dealers or GS sub-depositories, and whose licence includes the services and activities referred to in Article 2, paragraph 2, items 8 and 9 of the Law on Credit Institutions, including those from other Member States;
 - central securities depositories from Member States;
 - the Bulgarian National Bank and other members of the European System of Central Banks;
 - the Ministry of Finance;

- other entities approved by the Minister of Finance and the BNB Governor, within the scope of participants in system with finality of settlement according to Directive 98/26/EC and included in art. 130 of LPSPS.

3.2. Conditions for participation in BNBGSSS

Every BNBGSSS participant must meet the requirements of Ordinance No 5 and of these rules and procedures, subject to the following conditions:

3.2.1. Any participant must hold a licence issued by the relevant competent authority. No licence is required from the BNB, the MoF, and the entities approved by the Minister of Finance and the BNB Governor.

3.2.2. Any participant must have cash settlement accounts in RINGS and in TARGET or must specify a bank's cash settlement account in RINGS and in TARGET, which will be used for cash settlement of its GS transactions on the basis of an agreements signed with that bank.

3.2.3. Any participant must have available technical communication facilities for sending requests for and notifications of GS transactions in the secondary market, and for receiving notifications and confirmations from the BNB. The technical communication facilities are SWIFT and a web-based interface of BNBGSSS, using QES. Other technical devices may also be used, but only after the Ministry of Finance and the BNB have notified the participants that they are ready to implement them.

3.2.4. Any participant must also invariably meet the following criteria: must have sufficient funds available; must have an adequate operational and technical capacity; must meet all the requirements for legal capacity; must have in place an appropriate internal control and risk management mechanisms.

3.3. Documents for applying for participation in BNBGSSS.

Any applicant must submit to the BNB, the Fiscal Services Directorate, a written sample application form for participation in BNBGSSS - Appendix No 1 to Ordinance No 5, signed by the persons authorised to represent the institution.

Any applicant must attach to its application the following documents:

3.3.1. A unified identification code (UIC) or an excerpt from the trade register, issued not more than one month before the date on which the application is submitted. Any applicant for participation in BNBGSSS that is established in another Member State or in a third country must attach a document equivalent to an excerpt from the trade register, issued by a judicial or administrative authority of the country in which the applicant is based. If the applicant's national jurisdiction does not issue such a document, the applicant must attach another document attesting its status. The Bulgarian National Bank and the MoF are not required to provide such a document;

3.3.2. Notarised specimen signatures of the persons authorised to represent the institution;

3.3.3. A copy of the licence for a bank/investment intermediary;

3.3.4. An application for opening securities settlement accounts - Appendix No 1 to Ordinance № 31);

3.3.5. The participant's business identifier code (BIC) which will be used for communications with BNBGSSS, and details of the QES certificates of the users authorised by the participant to connect through the web-based interface of BNBGSSS;

3.3.6. A list of the participant's contact persons in case of emergency relating to the participant's GS transactions;

3.3.7. If an applicant for participation in BNBGSSS is a central securities depository, in accordance with the provisions of Ordinance No 5:

(a) for a preliminary assessment of the compliance of the documents submitted by the depository with the applicable legislation and the Principles for financial market infrastructures adopted by CPMI and IOSCO, the applicant must complete a questionnaire that will be the basis for assessing the legal, operational and financial risks relating to the expected activities of the applicant as a depository;

(b) for facilitating its direct participation in BNBGSSS, any applicant may specify a local GS sub-depository that will act as a technical operator of their connection with the System, on behalf and for the account of the participant, conducting all communications with BNBGSSS based on an agreement signed between them;

(c) the technical operator performs the following functions:

- on behalf and for the account of the CSD, it submits the requests for and notifications of GS transactions in the required time period, format and structure;
- it immediately notifies, on behalf of the CSD, the BNB of any incorrect records in BNBGSSS;
- it immediately notifies the BNB of any changes in the circumstances related with the CSD's participation, as described in the application for getting connected to the System and its appendices;

3.3.8. If an applicant for participation in BNBGSSS represents a third party established outside the European Union, the applicant must submit an application and documents equivalent to those described in points 3.3.1 through 3.3.7. The applicant for participation, representative of a third country, outside of the European union indicated the characteristics of the legislation of the country they are registered in as a legal entity, in order to ensure the feasibility of the agreement for participation and the present rules, to this end the application presents information and/or documents, which must contain data that:

- the legislature of the respective country is in accordance and does not interfere in any way the obligations of the participant, arising from the documents of the system;
- all of the provisions of the system are binding and feasible under the legislature of the respective country;
- obligations, arising from the documents of the system, their enforcement and compliance before the beginning of bankruptcy proceedings or other proceedings regarding the participant, cannot be annulled in such proceeding on the basis of relative invalidity, voidable transaction or another reason according to the legislature of the respective country.
- in case bankruptcy proceeding or another proceeding regarding the participant, the rights or assets, transferred to be used as collateral, or staked in favor of the BNB or other

participants in the system will have priority over other creditors' claims, while the other creditors cannot satisfy claims from them with priority.

3.4. Procedure and conditions for connecting a participant to BNBGSSS:

Any participant may be granted access to the System only after the approval of the BNBGSSS Participation Commission appointed under Ordinance No 5.

3.4.1. Working procedures of the BNBGSSS Participation Commission (the Commission).

3.4.1.1. When an applicant has submitted its written application for participation in BNBGSSS, the Commission thoroughly examines the documents provided by the applicant and notifies its decision to the applicant.

3.4.1.2. If the provided documents are incomplete or inaccurate, the Commission prepares a written reply to the applicant and demands new or additional information.

3.4.1.3. If the documents provided by an applicant are complete and correct, the Commission sends its reply to the applicant within three months as of receipt of all the required documents.

3.4.2. Tests for connection to BNBGSSS.

Once all the required documents have been submitted, each applicant is subject to tests. The Commission proceeds to organising the tests in order to check a participant's technical preparedness to communicate with BNBGSSS via SWIFT and the web-based interface.

3.4.3. Participation agreement between the BNB and the participant

Once the testing has been successful, the BNB and the applicant will sign a bilateral protocol on the test results. If it is decided that an applicant will be granted access to the System, an agreement is signed for participation in the System. On behalf of the BNB the agreement is signed by the Deputy Governor in charge of the Banking Department.

3.4.4. Connecting a participant to BNBGSSS

When a participation agreement is signed under item 3.4.3, the Commission notifies the relevant structural units at the BNB and the MoF of the new System participant and of the date on which that participant will be connected, as well as the bank-sub-depository chosen by the applicant where the applicant is unable to perform such functions.

On the basis of an participant's written application, a signed agreement, and with permission from the Deputy Governor in charge of the Banking Department, the BNB connects that participant to BNBGSSS and notifies all the other participants of the new participant's name, precise address, and the BIC, and of the date from which the new participant is granted full access to the System.

3.4.5. Contact persons

Any applicant is required to send to the Fiscal Services Directorate a list of the names and addresses of the persons who are responsible for each of the activities relating to:

- coordination with BNBGSSS;
- registration of and trade in government securities in BNBGSSS;

- technical, software and communication facilities;
- security;
- SWIFT connection.

The Fiscal Services Directorate prepares, and updates in a timely manner, the list of BNBGSSS participants published on the BNB's official website and available in the 'Help' menu of ESROT. The System's nomenclatures contain the latest details of all users of the participants, who are entitled to send requests for GS transactions under Article 16, paragraph 1 of Ordinance No 5.

The System participants must notify the BNB of any change in the list of their contact persons as soon as possible.

3.5. Procedure and conditions for terminating or suspending a participant's participation in BNBGSSS

3.5.1. Unilateral termination of a participant's participation in BNBGSSS by the BNB.

The Bulgarian National Bank may unilaterally discontinue a participant's access to BNBGSSS in one of the following cases:

- a participant's license has been revoked or insolvency proceedings have been initiated against that participant;
- a participant's competent authority has decided to discontinue its participation;
- a merger or consolidation of participants in BNBGSSS;
- restrictive measures have been enforced on a participant's capacity to provide investment services and activities.
- where the BNB, having consulted the MoF, has decided to suspend a participant's access temporarily, the government securities held by the participant and/or its clients, including encumbered government securities, can be transferred ex officio to another participant – a GS sub-depository designated by the MoF, in consultation with the BNB; in such cases the Fiscal Services Directorate may ex officio transfer the government securities held by that participant and/or collectively by all its clients, including encumbered government securities, to another participant under Ordinance No 5 and may take actions after consulting with the MoF.

The Fiscal Services Directorate notifies in writing all the other BNBGSSS participants of the termination of that participant's participation.

3.5.2. Suspension of a participant's participation in BNBGSSS.

The Bulgarian National Bank, after a consultation with the MoF, may suspend or entirely discontinue access to BNBGSSS in the following cases:

- the BNB finds that a participant no longer meets the requirements for participation in BNBGSSS;
- a participant fails to fulfil its obligations under the signed agreement for participation in the System;
- supervisory measures have been enforced on a participant, which restrict its activities or restrict or suspend the performance of its obligations;

- another event related to a participant, which, according to the BNB, might threaten the overall stability and security of the System, would give rise to systemic risk, or might prevent the BNB from performing its tasks described in the Law on the Bulgarian National Bank;

Where the BNB, having consulted the MoF, has decided to suspend a participant's access, the government securities held by the participant and/or its clients, including encumbered government securities, can be transferred ex officio to another participant – a GS sub-depository designated by the MoF, in consultation with the BNB; in such cases the Fiscal Services Directorate may ex officio transfer the government securities held by that participant and/or collectively by all its clients, including encumbered government securities, to another participant under Ordinance No 5 and may take actions after consulting with the MoF.

BNB, after consultation with the MoF, may lift the restriction and restore the participant's access. The Fiscal Services Directorate notifies in writing all BNBGSSS participants about the lifted restriction.

3.5.3. Termination of its participation in BNBGSSS at the request of a participant

Any participant may, at its request, unilaterally discontinue its participation in BNBGSSS, complying with the requirements in Ordinance No 5 for termination, at one month's notice.

In each case of termination of a participant's participation in BNBGSSS:

- the Fiscal Services Directorate immediately notifies in writing all the other BNBGSSS participants of such termination;
- the confidentiality obligations remain in force.

3.5.4. Refusal of access to BNBGSSS

The Bulgarian National Bank may refuse to grant access to an applicant for participation in BNBGSSS where the applicant does not meet the requirements for participation in the System, as specified in Ordinance No 5.

If an applicant is not allowed to get connected to BNBGSSS, the BNB prepares a well-substantiated written refusal that is sent to the applicant. The Bulgarian National Bank may refuse access only where that access would threaten the seamless and normal functioning of the government securities market or would give rise to systemic risk. The refusal is drawn up after a thorough assessment of the legal, financial and operational risks that might arise for BNBGSSS if a participant is given access to the System.

4. Eligible securities

BNBGSSS registers only government securities issued by the Minister of Finance on the domestic market. These are book-entry government securities in the form of accounting and electronic entries into software systems, evidencing the ownership of these securities.

Based on the period for which they can be held, the issued government securities are:

- short-term government securities – with a redemption period within one year inclusive;
- medium-term government securities – with a redemption period from one year to five years inclusive;
- long-term government securities – with a redemption period of over five years.

5. GS accounts

5.1. General rules of opening and closing GS accounts

A securities settlement account is an account with the central bank, which is used for keeping GS and for settling GS transactions between BNBGSSS participants.

5.1.1. Opening securities settlement accounts:

5.1.1.1. Once an applicant has been allowed access to BNBGSSS, that applicant must submit an application for opening securities settlement accounts - Appendix No 1 to Ordinance № 31. The Bulgarian National Bank opens and keeps settlement accounts for the government securities held by the System participants and by their clients.

5.1.1.2. The Bulgarian National Bank, the General Accounting Directorate, opens securities settlement accounts for each issue of government securities on the basis of a written request from the Fiscal Services Directorate upon the initial issuance of government securities, which specifies: the name of the System participant that has purchased government securities at an auction for its own account and/or collectively for the account of its clients; the number of the issue of government securities; the currency in which the government securities are denominated.

5.1.1.3. The Bulgarian National Bank opens a securities settlement account of the MoF as the issuer of government securities, and all the government securities of an issue are transferred to that account at the time when it is issued initially, when government securities are repurchased prior to maturity, and at maturity.

5.1.1.4. Securities settlement accounts are used for settling GS transactions in the primary and the secondary market, by the nominal value of the securities subject to a transaction. Settlement of GS transactions is final after the acquirer's securities settlement account is credited.

5.1.1.5. The GS depository does not open its own GS accounts. By law the GSD does not hold any government securities and may not use government securities of the BNBGSSS participants or of their clients.

5.1.2. Closing securities settlement accounts. The Bulgarian National Bank closes securities settlement accounts under the following conditions.

5.1.2.1. When an issue matures.

5.1.2.2. When a participant's participation in BNBGSSS is terminated under item 3.5 of these rules and procedures.

5.2. Types of accounts.

5.2.1. The Bulgarian National Bank opens and keeps securities settlement accounts in GSSA, as follows:

- accounts for the government securities held by the System participants;

- accounts for the government securities held collectively by the System participants' clients;
- accounts for encumbered government securities held by the System participants.

5.3. Structure of GS accounts

For easier use of the standard SWIFT messages for GS transactions, a ten-digit code is introduced to designate the GS registers/accounts of the System participants, which code has the following structure - (Appendix No 1 to these Rules and Procedures):

NNNNCCCCXX, where:

NNNN - denotes the type of GS register/account and may take the following values:

9251 – a register/account for the government securities in BGN, held by a participant;

9255 – a register/account for the government securities in foreign currency, held by a participant;

9252 – a register/account for the government securities in BGN, held by a participant's clients;

9257 – a register/account for the government securities in foreign currency, held by a participant's clients;

9253 – a register/account for encumbered government securities in BGN, held by a participant;

9258 – a register/account for encumbered government securities in foreign currency, held by a participant

CCCC – a code of a System participant. If this code consists of three digits, a zero is added in front of it.

XX – the type of encumbrance on the government securities of a participant, where the values are as follows:

00 - for government securities blocked to secure budget funds on accounts and deposits of budget organisations with banks;

01 - for government securities blocked to record a pledge;

02 - for government securities blocked in other cases.

5.4. Keeping registers and GS accounts

5.4.1. BNBGSSS keeps individual registers and accounts of the System participants and omnibus accounts for the government securities held by their clients. The GS sub-depositories have in place systems for registering the government securities held by their clients and by clients of the participants for which they perform sub-depository functions, as well as individual accounts for the government securities held by these clients.

5.4.2. The GS sub-depositories segregate their own government securities from those of the clients, without being accountable to their creditors for the government securities of the clients for which they keep the individual accounts.

Statements of securities settlement accounts are provided only to the holders of the accounts:

- on a daily basis, where there is movement on the accounts;

- on a monthly basis, on demand.

5.4.3. The participants' obligations relating to the cash settlement of GS transactions in the primary and in the secondary market.

5.4.3.1. The System participants are obliged to indicate the numbers of their cash settlement accounts in RINGS and in TARGET-BNB or in another system component of TARGET, and the BIC in TARGET.

5.4.3.2. Any participant having no cash settlement account in RINGS must attach a completed sample declaration (Appendix No 2 of Ordinance No 5), in which the bank chosen by that participant gives its consent to be the participant's settlement bank. Any participant with no cash settlement account in TARGET must attach a completed sample declaration (Appendix No 2a of Ordinance No 5) on the agreement it has signed with the bank chosen by that participant to be its settlement bank that will effect payments in euro on the participant's GS transactions through the bank's account in the relevant system component of the specified national central bank.

5.4.3.3. For the purposes of euro cash settlement, any settlement bank participating directly in the national system component TARGET-BNB or in another system component of TARGET must provide the Fiscal Services Directorate with its consent for debit in the approved form which must be signed by the bank and by the BNB – Form 2002 Debit mandate for AS settlement.

5.5. MoF's accounts for GS transactions

In accordance with the requirements in Ordinance No 31, the BNB ex officio opens and keeps in BNBGSSS, securities settlement accounts in the name of the MoF for each issue of government securities in BGN or in foreign currency. The accounts of the MoF are:

- GS accounts of the MoF as the issuer of government securities – these accounts are used for the book-entry total amount of one issue of government securities denominated in BGN or in foreign currency, at nominal value, upon its initial issuance, upon replacement, repurchase prior to maturity, and at maturity.
- GS accounts, in BGN or in foreign currency, of the MoF as a participant in BNBGSSS.

5.6. Settlement of GS accounts.

Settlement on GS accounts can be:

- DvP – delivery versus payment;
- FoP – delivery free of payment;
- PFoD – payment free of delivery.

6. Transactions in the primary and in the secondary market

6.1. Settlement of primary market transactions

6.1.1. Using the GS auction results received from the automated Government Securities Auction System (GSAS), BNBGSSS, via a purpose-specific interface, generates the settlement instructions for the issue of government securities auctioned by the MoF for sale/repurchase prior to maturity/replacement.

6.1.2. On the day of payment, settlement instructions are initiated through BNBGSSS for the bids approved at an auction, including the participants' fees¹ due. The System ex officio debits/credits the participants' cash settlement accounts and credits/debits the relevant accounts of the MoF with the total value of the approved bids for the account of the participants and for the account of their clients, and at the same time it enters the nominal value of the purchased/repurchased prior to maturity/replaced government securities in the participants' securities settlement accounts and enters the government securities purchased/repurchased/replaced by their clients in the omnibus securities settlement accounts.

6.1.3. BNBGSSS registers the purchased government securities after the acquirer's securities settlement account is credited.

6.1.4. Settlement relating to corporate actions – payment of principal and/or interest amounts on government securities.

6.1.4.1 The System automatically calculates the interest and/or principal amounts to be paid by each participant, applying the interest rate conventions and the conditions of each issue of government securities.

6.1.4.2 The Fiscal Services Directorate consults with the MoF the value date and the amounts of the principal and/or interest payments due on maturing government securities.

6.1.4.3. BNBGSSS generates the settlement instructions for the payments.

No payments on negative-yielding government securities are executed in BNBGSSS.

6.1.4.4. At maturity, the Fiscal Services Directorate initiates the settlement instructions in BNBGSSS, and the System ex officio debits the nominal values and the interest amounts from the relevant accounts of the MoF and credits the participants' cash settlement accounts with the amounts due for redemption of the government securities held by them and by their clients, and at the same time writes off the nominal value of the matured government securities from the securities settlement accounts.

6.1.4.5. BNBGSSS notifies via SWIFT the System participants of any principal and/or interest payments due on maturing government securities, and on the settlement date – of the effected payments, using messages MT564 Corporate Action Notification and MT566 Corporate Action Confirmation, respectively.

6.1.4.6. When executing payments of principal and/or interest amounts and at maturity, the System applies the so-called 'freeze period' – the requests for and notifications of

¹ According to the BNB's Tariff of fees and commission for processing government securities transaction.

GS transactions of a certain issue are accepted by 12.00 and are processed by 13.00 of the BNBGSSS system day preceding the maturity date of the relevant issue of government securities or of the interest payments on that issue.

6.2. Settlement of secondary market transactions

6.2.1. Overview

All transactions to be settled in BNBGSSS are executed following the receipt of a valid instruction (requests/notifications) from a System participant, in accordance with the requirements in Chapter Three of Ordinance No 5. Once settlement is over, all transactions made in the GS secondary market are entered into the registers, in the cash settlement accounts and/or securities settlement accounts.

BNBGSSS settles transactions only on the agreed settlement dates.

6.2.2. Settlement of GS transactions

6.2.2.1. Trades and transactions in government securities are settled by the FIFO (First in, First out) method, on a gross basis, in real time (DvP – Model 1), with the delivery of government securities occurring at the same time as the cash payment, and with a settlement cycle in the secondary market as follows: for the OTC market T+ 0; for transactions made on the E-BOND BULGARIA multilateral trading facility operated by Bloomberg Trading FACILITIES B.V. - T+0; T+1 or T+2; for transactions made in the regulated market operated by the Bulgarian Stock Exchange AD - T+2.

6.2.2.2. Trade by trade processing with no cash movement (FoP – free of payment).

6.2.2.3. BNBGSSS operates according to a system day schedule pre-announced by the MoF and the BNB, and aligned with the operating hours of the systems RINGS and TARGET.

6.2.3. Format and contents of instructions

Any System participant that wishes to make a transaction in BNBGSSS must send its settlement instruction to the System. All mandatory and optional fields that are to be filled in and the fields that are to be matched are described by type of transaction in the ‘Manual for external users participating in ESROT’.

6.2.3.1. The principle of double notification applies, i.e. each of the counterparties sends one request for/notification of a transaction.

6.2.3.2. SWIFT under the international standard ISO 15022, and a web-interface (based on a VPN environment) with a qualified electronic signature (QES) are used as equivalent communication facilities.

6.2.3.3. BNBGSSS automatically checks all the details in the participants’ requests. The data are in compliance with the requirements of Commission Delegated Regulation (EU) 2018/1229 of 25 May for supplement of Regulation (EU) No 909/2014 of The European Parliament and of the Council with regard to regulatory technical standards on settlement discipline, and are as follows: the type of transaction, the identification details of the participant (the transferor) delivering government securities or cash; the identification details of the participant (the acquirer) receiving government securities or cash; the ISIN number of the issue of government securities and the currency of the traded government securities; the nominal

value of the transferred government securities; the actual amount to be paid (for DVP transactions); the settlement date (value date), and the value date and the repurchase price (for repo transactions), the trading venue (when a transaction is made there).

6.2.3.4. At each stage of the processing, the participants are able to monitor in real time the status of their requests for/notifications of GS transactions.

6.2.4. Priority of trades and transactions

6.2.4.1. On the days on which principal/interest payments become due on matured government securities, repo transactions or GS loans, and on transactions for the purchase, repurchase and replacement of government securities in the primary market, the BNB, after starting the ESROT system day, prioritises these for processing as follows:

- payment of principal and interest amounts on matured government securities;
- the second leg of pre-agreed repo transactions and maturing GS loans;
- purchase, repurchase and replacement of government securities in the primary market;
- other pre-agreed transactions in the secondary market;

6.2.5. Transactions DVP/FOP/PFOD

6.2.5.1. Delivery versus payment (DvP) transactions.

The DvP (Delivery versus Payment) settlement principle is regulated in Ordinance No. 5 and Ordinance No. 31. The settlement of GS transactions carried out through DvP includes mutual settlement of cash and government securities at the same time, and in each GS transaction the cash is available at the time of the transaction.

a) transactions for the purchase and sale of government securities concluded in the OTC market, as well as those agreed in the regulated market and multilateral trading system (MTS), are finalised on the DvP principle.

b) repo transactions in government securities between BNBGSSS participants are concluded on the DvP principle.

c) transactions between participants and their clients are also finalised on the DvP principle, as follows:

- repo transactions in GS between BNBGSSS participants
- transaction for the purchase and sale of government securities by a client of one participant in BNBGSSS to another participant in BNBGSSS
- transaction for the purchase and sale of government securities by a client of one participant in BNBGSSS to a client of another participant in BNBGSSS
- transaction for the purchase and sale of government securities by one BNBGSSS participant to a client of another BNBGSSS participant.

6.2.5.2. Free of Payment (FoP) transactions.

Transactions on the secondary market between system participants and their clients and between clients of BNB GSSS participants are carried out on the FoP principle, without movement on the cash settlement accounts in RINGS, respectively in TARGET, and the movement is only on the settlement accounts of government securities. The types of transactions finalised on a FoP principle by BNB GSSS are:

- GS loan;
- other transactions or operations for the transfer of government securities, including: transfer of government securities to registers between participants; transfer of government securities to client registers; transfer of government securities to an account according to Ordinance No. 31; realisation of pledged government securities in the cases of proceeding to execution in accordance with the Law on Special Pledges; other transactions or operations involving GS transfer.

6.2.5.3. Payment Free of Delivery (PFOD) transactions

These instructions are sent by BNB GSSS when paying interest and principal on maturing government securities. Funds are transferred to the accounts of participants in the system, without back transfer of government securities.

6.2.6. GS blocking and unblocking transactions (FoP)

The blocking of government securities in the BNB GSSS, which has the effect of a legal pledge on them in favour of the MoF, or their unblocking, is carried out at the request of the participants in the system, sent to the BNB, in accordance with the requirements of Ordinance No. 5 within the terms set jointly by the Ministry of Finance and the BNB. During blocking and unblocking transactions, government securities are transferred from the participant's own account to the participant's account with an encumbrance, in the following cases:

- when entering circumstances regarding a pledge on government securities in the Register of Special Pledges;
- collateral for securing budget funds under Article 152, paragraph 3 of the Law on Public Finances;
- in other cases.

Blocking or, respectively, unblocking of government securities is carried out on the basis of a request sent by the participant in BNB GSSS through the technical means of communication determined according to Ordinance No. 5, as follows:

- the requests are sent to the BNB and are processed within the time limit set in the Instructions;

- requests received are immediately subjected to incoming check, similar to all requests received at BNBGSSS. In case an error is found, the request is rejected and the participant is notified thereof. Participants can send new requests and only those that have successfully passed the incoming check are allowed for further processing;
- upon successful incoming check, requests become irrevocable;
- a check is carried out in BNBGSSS as to whether the bank has the required amount of government securities of the relevant issue specified in the blocking (unblocking) request. In the event that the bank does not provide the required amount of government securities specified in the request by the deadline specified in the Instructions, it is refused, and the participant is notified of the reasons for the refusal;
- upon availability of the required quantity of government securities to fulfil the request, BNBGSSS generates accounting records for blocking/unblocking of government securities on the relevant encumbered GS accounts, kept in the GSSA, and transmits them for settlement. After the completion of the settlement, blocking/unblocking is confirmed in the participant's register, according to Ordinance No 5;
- the bank is provided with an electronic copy of the accounting record, which serves as confirmation that the blocking (unblocking) of the government securities has been carried out.

6.2.7. Codes of the types of transactions/operations according to Ordinance No. 5

The codes of the types of transactions are described in Appendix No. 2 to these Rules and Procedures.

7. Blocking and unblocking of government securities when entering a pledge in the RSP and securing funds on accounts and deposits of budget organisations with servicing banks

7.1. Register of Special Pledges

Circumstances regarding pledges of book-entry government securities owned by the BNBGSSS participants, kept in their registers in accordance with Ordinance No. 5, are entered in the RSP, set up at the BNB in accordance with the Law on Special Pledges (PLS) and Ordinance No. 5. When entering the pledge, government securities are blocked, and the execution of disposal transactions with them by the pledgor is suspended or is possible only with the consent of the pledgee. When the pledge is deleted, the government securities are unblocked.

The register of special pledges is an independent information system with a single database that contains information about each entry. The system has a built-in interface for automated data exchange with BNBGSSS, which enables:

- automatic sending of a request to BNBGSSS upon each entry in the RSP to check for the presence of government securities subject to the pledge and to generate an instruction by BNBGSSS for their blocking/unblocking on the encumbered GS accounts;
- automatic confirmation of the entry in the RSP after receiving information from BNBGSSS about GS blocking/unblocking;
- automatic generation of various reports, confirmations, refusals and certificates for registered pledges on government securities;
- daily reconciliation of data between RSP and BNBGSSS.

The activity of entering circumstances regarding pledges on book-entry government securities in the RSP is carried out in compliance with the requirements of Ordinance No. 5 and the Internal Rules for registering and servicing pledges on book-entry government securities.

For the services related to the servicing of special pledges on government securities in the Register of Special Pledges, the BNB collects a service fee for the benefit of the Republican budget, according to the Tariff of the fees collected under the Law on Special Pledges from the Central Register of Special Pledges.

7.2. Setting up a pledge

When pledging government securities, they are blocked in an encumbered government securities account held by the BNBGSSS participant, and disposal of them by the pledgor is suspended. Pursuant to the requirements of Ordinance No. 5, execution of disposal transactions by the pledgor with the pledged government securities is possible only with the consent of the pledgee.

7.3. Entries in RSP

Entries in the RSP are carried out in accordance with the LSP, the Rules and Regulations for the structure and operation of the Central Register of Special Pledges at the Ministry of Justice (RRSOCRSP), Ordinance No. 5 and Ordinance No. 31.

7.4. Interest payment and repurchase of pledged securities

The method of payment of the principal and interest on the pledged government securities is regulated by a tripartite agreement between the BNB, the pledgor and the pledgee in accordance with the requirements of Ordinance No. 5, and when interest payment becomes due and/or at maturity, the BNB transfers the interest due to the account specified in the Tripartite Agreement.

7.5. Blocking and unblocking of government securities as collateral to secure funds on accounts and deposits of budget organisations at servicing banks

7.5.1. Banks provide as collateral the full amount of available funds on all accounts and deposits in BGN and in foreign currency of the budget organisations serviced by them, including letters of credit in favour of the Ministry of Finance according to Art. 152 of the Law on Public Finance (LPF).

7.5.2. The collateral under item 7.5.1 is carried out by blocking government securities on Republic of Bulgaria debt (internal and external). The blocking of domestic debt securities

is carried out at the BNB and has the effect of a statutory special pledge on them in favour of the MoF. Securities free of all encumbrances and collateral are blocked. Banks unblock government securities only on the condition that this does not lead to a temporary shortage of collateral for the available funds of budget organisations on accounts with them according to the LPF.

7.5.3. Government securities under the previous point, which are registered in BNBGSSS, are blocked or unblocked, respectively, based on a request for this made by the servicing bank.

7.5.4. The blocking/unblocking of government securities in BNBGSSS used for collateral to secure the availability of funds on all accounts, deposits and letters of credit in BGN and foreign currency of budget organisations, including municipalities, with banks, is carried out in accordance with the Joint Instructions of the Minister of Finance and the Governor of BNB – No. 09/31.07.2015 (No. BNB-72589/31.07.2015) regarding the preparation and provision by banks of periodic information on the operations and balances on the accounts of budget organisations and the way to regulate the daily collateral of these funds by banks (the Instructions).

7.5.5. On a daily basis, through BNBGSSS, a report is prepared on the value of the collateral of government securities blocked in BNBGSSS for each of the participants servicing budget funds. References are provided to each participant through the "Letters and documents" menu in the System.

8. Transactions processing and settlement

8.1. BNBGSSS operating days and hours

8.1.1. System operating days

A BNBGSSS system day is every working day for the Republic of Bulgaria, according to the official calendar for the year. The system operates according to a schedule pre-announced by the Ministry of Finance and the BNB, in accordance with the working hours of RINGS and TARGET.

8.1.2. System operating hours

BNBGSSS operates according to the following system day schedule:

SYSTEM DAY SCHEDULE

Start of system day	8:15 – 8:30	<p>System functionality check Changing the system day Preparation of corporate actions Notifications of upcoming corporate actions</p>
Real-time settlement	<p>8:30 – 16:45</p> <p>8:30</p> <p>15:30</p> <p>16:45</p>	<p>Start time for accepting requests/notifications for registration and settlement of GS transactions Corporate actions on government securities Settlement of GS transactions/operations, incl. of auction results</p> <p>Deadline for accepting requests for blocking/unblocking of government securities under Art. 152, para. 2 of the LPF</p> <p>Deadline for accepting requests/notifications for GS registration and settlement</p>
End of system day	<p>16:45 – 17:45</p> <p>17:15</p> <p>17:30</p>	<p>Closing of settlement, reconciliation of data*, statements and reports:</p> <ul style="list-style-type: none"> • Closing time for cash settlement in TARGET • Closing time for cash settlement in RINGS <p>Re-initiation, if required, of instructions for GS settlement in case of settlement failure and charging of penalty interest on GS transactions with failed settlement</p> <p>Inquiries, reports and data reconciliation</p>

*If instructions for settlement are missing, the reconciliation is done at 17:15.

8.2. Rules for processing of GS transactions

8.2.1. Means of communication under normal working conditions

Under normal BNBGSSS operating conditions, the following equally valid means of communication are used:

- SWIFT, applying the international standard ISO 15022;
- WEB interface (based on VPN environment) using QES

8.2.1.1. The types of SWIFT (ISO 15022) messages used by BNBGSSS are described in Appendix No. 3 to the Rules and Procedures.

8.2.1.2. The valid types of incoming messages for the respective types of transactions are described in Appendix No. 4 of the Rules and Procedures.

8.2.1.3. Responses to incoming SWIFT messages are described in Appendix No. 5 of the Rules and Procedures. The error codes for verification and processing of SWIFT messages are described in Appendix No. 6 of these Rules.

The “Manual for working with ESROT for external users - participants in the system“ describes the types of transactions carried out by the system, the forms for entering requests/notifications by the participants, the format of SWIFT messages, a list of transaction and operation codes, errors in the processing of data submitted to the system, etc.

8.2.1.4. For transactions concluded in:

- a regulated market organised by the BSE – the BSE sends a daily report with information on concluded GS transactions electronically through a secure information channel. To protect the data transfer between the BNB and BSE infrastructures, an IPSec VPN tunnel is configured with encryption and authentication parameters covering the adopted regulations;
- Multilateral Trading System (MTS) E-BOND-BULGARIA, operated by Bloomberg – for monitoring GS transactions, the GSD has a Bloomberg terminal, and the daily report on concluded transactions is accessible through a Bloomberg server.

8.2.2. Submission of requests for processing transactions/operations in the secondary market of government securities

8.2.2.1. Bilateral Requests/Notifications

The registration of transactions/operations in government securities on the secondary market is carried out on the basis of requests sent to the BNBGSSS through one of the two communication channels from both parties to the transaction – the acquirer and the transferor, respectively the borrower and the lender.

Upon receipt of a SWIFT message at BNBGSSS for transactions of the type MT540 to MT543:

- in case the message is correct, it is accepted by the system and is given a Not Matched status;
- in case the message cannot be read or the System detects errors in it, according to the applied nomenclature, the same is rejected by the System, giving it a Rejected status. A transaction message received that has been read

(of a type acceptable by the System) is also rejected and assigned a Rejected status in cases where the participant has been imposed a temporary or permanent measure limiting their participation in the BNBGSSS. A message (MT548) is returned to the sender of the message, indicating the error code or the reason why he was not allowed into the System.

8.2.2.2. Inbound request check

Transaction requests are sent to the BNB and processed within the system day. Requests received are immediately subjected to an incoming check of their format, keywords identifying relevant details, and the date and time of receipt. If an error is found as a result of the check, the request is rejected by sending a rejection message to the participant who submitted the request. Participants can submit new requests for the same transactions, and only those that have successfully passed the incoming check are admitted for further processing. The latter are stored until the value date of their execution (future value date).

8.2.2.3. Matching requests. Refusal of requests

Upon successful incoming verification, the BNB checks whether the data contained in the requests match. Mandatory fields to match must be present and identical in both statements. Within the BNBGSSS system day, participants can cancel their requests, the data of which did not match. In the event that by the end of the BNBGSSS system day the data in the requests have not matched, the requests are rejected, and the participants are notified of the reasons for the rejection, such as:

- if requests requiring bilateral notification are matched, they are assigned a Matched status. Requests with a Matched status cannot be cancelled (refused) and are forwarded for further processing in BNBGSSS;
- after the expiry of the deadline for receiving requests requiring bilateral notification for the relevant settlement value date, unmatched messages are automatically cancelled (rejected) by the system, with the status Cancelled by the system being assigned to them. The participants who sent them are notified of this with a message MT548.

8.2.2.4. Confirmation of requests:

- when matched requests are processed by the System, each of them is assigned the status Settled and confirmations of this (MT544 to MT 547) are sent to the participants who sent the messages;
- when matched requests cannot be processed by the end of the system day on the requested value date due to a lack of securities, funds or other reasons, they are rejected by being assigned the status Cancelled by the system and (MT548) messages are sent to their senders with the reasons for refusal: lack of securities, lack of cash or other reasons. In case the reasons for the refusal are a lack of government securities or cash, the matched requests are not

cancelled, and the BNB re-initiates settlement instructions within four working days.

8.2.2.5. Cancellation of transactions. The procedure for processing messages for cancellation (rejection) of government securities transactions requiring bilateral notification, sent to BNBGSSS via SWIFT or Web-based interface is as follows:

Upon receipt of a SWIFT message of type MT540 to MT543 with a 'CANC' message function:

- in case the message cannot be read or the System detects errors according to the applied nomenclature, including an attempt to cancel (reject) a non-existent or matched message, it is rejected by the System, assigning it a Rejected status;
- in the case of a transaction cancellation (refusal) message received by a participant, which has been read and is of an acceptable type for the system, the same is rejected by the System, giving it a Rejected status, when a temporary or permanent measure has been imposed on a participant to limit his participation in the System. A message (MT548) is returned to the sender of the message indicating the error code or reason for its rejection in BNBGSSS;
- in the event that no inadmissible values are found, the cancellation (rejection) message is accepted by the System, giving it an Accepted status and proceeding with the cancellation (rejection) of the transaction request specified in it. When the latter is cancelled, it is assigned the status Cancelled by participant and a message (MT548) is sent to its sender to that effect.

8.2.2.6. Transaction processing procedures for change of business days

- when a working day is declared non-working, all previously submitted and accepted final trades or repo trades with a future value date on that date, on which no settlement has been made, are cancelled (rejected) by the System by sending a message with one of the following error codes: 004 – a value date of a transaction is specified that is a non-working day; 095 – the repo value date is a non-working day;
- if a business day, on which the repo value date of a repo transaction falls, the first part of which has already been settled, is declared a non-working day, the repo value date is moved from the system to the next working day. If the next business day is a date on which the transaction cannot be executed due to an upcoming interest payment or maturity of the given issue, the second part of the repo transaction is rejected by sending a message with one of the following error codes: 028 – the value date of the second part of the repo transaction is indicated, which is impossible due to an upcoming interest payment or maturity; 096 – if a future date greater than or equal to the maturity date of the issue is specified.

8.2.2.7. Correction of wrong entries

Upon detection of incorrect entries in the BNBGSSS, the BNB performs an immediate check, complying with the requirements of Ordinance No. 15.

- in the event that, during the verification of the data in the requests, it is found that an incorrect entry has been made in the System by the BNB, it will carry out ex officio corrective operations with a current value date, notifying the participant(s) in the System of this;
- in the event that during the check it is established that the wrong entry in the System is the result of a fulfilled request/notification by its participants, sent in accordance with Chapters Three and Four of Ordinance No. 5, the BNB carries out corrective operations with a current value date based on a participant's request/notification.

The Bulgarian National Bank is not responsible for damages related to the registration and settlement of transactions in government securities caused as a result of incomplete, false or inaccurate information provided by BNBGSSS participants.

8.2.2.8. Moment of entry and time of irrevocability of requests/notifications

- Moment of entry of requests/notifications –successful check of incoming transactions request, in accordance with the technical requirements of the system. In case the requests do not meet the requirements set out in Ordinance No 5, they are rejected and not registered into the system.
- Moment of irrevocability of the requests/notifications –when there is a complete match of the details in the requests of both parties, the requests receive a Matched status and become irrevocable. In case the requests are unilateral, the moment of entry of the requests/notifications and the moment of irrevocability of the requests/notifications coincides (blocking/unblocking transactions, transferring GS of a client, etc.)

The Bulgarian National Bank checks in the registers in accordance with Ordinance No. 5 whether the transferor, respectively the lender, holds the government securities that are the subject of the transaction and whether they are not blocked. The same check is carried out on the value date of the repurchase, respectively the value date of the maturity of the loan. In the event that these requirements are not met by the end of the BNBGSSS system day, settlement failure procedures apply.

8.2.2.9. Settlement finality

The settlement of government securities transactions is final after the government securities settlement account of the GS acquirer has been credited, in accordance with the requirements of Ordinance No. 31.

8.2.2.10. Partial settlement

BNBGSSS is in derogation with regard to the requirements for partial settlement pursuant to Art. 12 of Commission Delegated Regulation (EU) 2018/1229 of 25 May 2018 supplementing Regulation (EU) No 909/2014 of the European Parliament and of the Council with regard to regulatory technical standards on settlement discipline.

9. Steps to prevent failed settlement

9.1. BNB GSSS establishes procedures

- to facilitate the settlement on the determined settlement date. For this purpose the BNB GSSS requires the participants to settle the transactions on the determined date. The principles for processing and settlement of transactions on the secondary market can be found in art. 6.2 of the present Rules.

9.2. BNB GSSS participants take all necessary measures

- to prevent cases of failed settlement and ensure that they have sufficient available government securities or cash, thereby ensuring that the settlement of each transaction takes place on the specified date.

9.3. Measures for handling failed settlement

9.3.1. In the event that settlement cannot be carried out on the scheduled date due to a lack of government securities or cash, the BNB re-initiates instructions for the settlement of government securities daily, within four working days in accordance with Ordinance No. 31.

9.3.2. Reinitiation of instructions when settlement of GS fails does not apply in cases where the value date of the repo transaction and the maturity value date of the loan is on a date earlier than the specified four-day period.

9.3.3. BNB GSSS participants may bilaterally cancel already matched settlement instructions that are part of the same transaction and whose settlement was unsuccessful within the period specified in point a).

9.3.4. For each settlement instruction for which the settlement was unsuccessful, the BNB charges penalty interest to the participant who caused the failed settlement. The mechanism for calculating the penalty interest is described in detail in Chapter 4a of Ordinance No. 31.

9.3.5. The penalty interest is charged and withheld at the end of each working day in which the settlement was not carried out according to the settlement instruction, complying with the requirements of Chapter 4a of Ordinance No. 31.

9.3.6. The penalty interest is collected ex officio by the BNB and transferred to the participant affected by the failed settlement in accordance with the requirements of Ordinance No. 31.

9.3.7. In the event that the market value for the relevant government securities issue is not available in a regulated market or in a multilateral trading system or the same is below

the nominal value of the government securities, the nominal value of the government securities is used in the calculation of the penalty interest.

9.4. Reporting of cases of unsuccessful settlement

BNBGSSS establishes a system for monitoring the cases of unsuccessful settlement and immediately informs the relevant authorities in case of failed settlement.

The Bulgarian National Bank annually publishes data on its website in accordance with Annex III of Delegated Regulation (EU) 2018/1229 for cases of settlement failure, and reports them to the Ministry of Finance.

BNB, after consulting with MoF, can temporarily suspend participant's access or remove him from the system for systemically not delivering GS.

10. Rules and procedures in case of a participant's default

10.1. Based on a notification received from the competent authority or one received in accordance with Article 6 of Directive 98/26/EO

In order to reduce the systemic risk, the GSD temporarily limits access to the System or terminates it where license revocation actions have been taken against a participant; insolvency proceedings have been opened; in the cases provided for by law, measures have been imposed limiting its activity in whole or in part: a decision has been taken by the competent authority of a participant to terminate it: in the event of a takeover or merger between BNBGSSS participants; measures have been imposed, in accordance with cases provided for by law, limiting the performance of investment services and activities, as well as when the same has ceased to meet the requirements for participation in BNBGSSS and does not fulfil its obligations.

10.2. Measures in the event of opening of insolvency proceedings

In the event of opening of insolvency proceedings in relation to a BNBGSSS participant, the GS Depository undertakes the following actions:

10.2.1. Immediately terminates/temporarily restricts the participant's access to BNBGSSS, thereby ceasing the participant's ability to send requests/notifications for government securities transactions to the System.

10.2.2. It does not process requests/notifications and does not carry out settlement of GS transactions submitted after the point when the GSD was notified that insolvency proceedings had been opened.

10.2.3. The requests/notifications entered into the System for GS transactions, before the point of receipt of the notification of the opening of insolvency proceedings, are processed within the system day.

10.2.4. Immediately informs the MoF about the circumstances that have arisen.

10.2.5. Transfers the government securities officially owned by the participant and all of his clients, including those with an imposed burden, to another participant - a GS sub-depository, determined by the Ministry of Finance in agreement with the BNB.

10.2.6. GSD may not transfer to the cash settlement accounts in RINGS, respectively in TARGET, indicated by a BNBGSSS participant, on the maturity date of the

relevant GS issue or on the GS interest payments date, the necessary funds for the payment, where in accordance with Article 6 of Regulation No. 5, the access of the participant in the BNBGSSS has been terminated or temporarily restricted and actions have been taken against him, as well as when there is a motivated proposal for this by the Minister of Finance in connection with data on delay or non-fulfilment of the obligations under Art. 35 of Ordinance No. 5. In these cases, the MoF, in agreement with the BNB, immediately designates a sub-depository to make the payments of government securities and the interest on them to the clients of the participant against whom the specified actions have been taken.

10.2.7. GSD, together with the participants in the System, performs tests and review of the rules and procedures in case of default at least once a year to ensure their expediency and effectiveness. The GSD documents the results of the tests conducted and the review of the rules.

11. Measures in cases of resolution

Taking measures for the prevention of crises or measures for management of crises as defined by the Law on the Recovery and Resolution of Credit Institutions and Investment Firms in regard to BNBGSSS participant is not sole reason to determine that a participant does not comply with the requirements for participation in the System or does not fulfill their obligations according to the Agreement for participation in the System, in this sense this circumstance is not a reason for temporary or permanent suspension of participation in the System.

12. Fees and commissions

The Bulgarian National Bank collects fees and commissions for services in BNBGSSS according to the BNB Tariff for fees and commissions for processing transactions in government securities.

The fees charged for the services provided through BNBGSSS are:

- monthly;
- and fees for GS transactions in the primary and secondary market.

12.1. Monthly fees

12.1.1. Monthly fees for participation in electronic systems operated by the BNBGSSS.

12.1.2. Monthly fees for maintaining a register, opening, maintaining and closing government securities accounts.

12.2. Fees for GS transactions in the primary and secondary market

12.2.1. Fees and commissions for processing documents for participation in auctions, registration and settlement of government securities in the primary market and at maturity of issues.

12.2.2. Fees for registration and settlement of GS transactions in the secondary market, fees for blocking and unblocking of government securities, fees for preparing a statement from the register.

The Bulgarian National Bank reserves the right to change the amount of fees and commissions depending on the state of the financial market.

13. Rights and obligations of BNB as owner and operator of BNBGSSS

13.1. Rights and obligations of the BNB in organising, regulating and controlling the BNBGSSS

The Bulgarian National Bank:

13.1.1. Determines the terms and procedure of participation in BNBGSSS.

13.1.2. Develops and issues the rules and procedures for the operation of the BNBGSSS and provides public access to them.

13.1.3. Supervises compliance with BNBGSSS rules and procedures and the implementation of the internal rules for working with the System.

13.1.4. Adopts and complies with internal rules for the operation of BNBGSSS, through which a high degree of protection of the System, operational reliability and confidentiality of information is guaranteed.

13.1.5. Develops and adopts rules for action in emergency situations to ensure the timely processing of GS operations under extraordinary circumstances.

13.1.6. As a settlement agent, it manages the settlement process of GS operations.

13.1.7. Has the right to temporarily limit and exclude a BNBGSSS participant.

13.1.8. Organises and ensures audit of BNBGSSS.

13.2. Rights and obligations of the BNB in operating, maintaining and administering the BNBGSSS

The Bulgarian National Bank:

13.2.1. Operates and maintains the functioning of the BNBGSSS, provides access to the System for participants, in accordance with these rules and procedures and the specifications of the System.

13.2.2. Ensures backup of BNBGSSS operation and at least once a year organises transfer of System operation to its backup configuration.

13.2.3. In case of an emergency or force majeure circumstances, BNBGSSS may change its work schedule, for which it will promptly notify the participants and operators of the System.

13.2.4. Administers and ensures equal, protected access of participants and operators to the System based on reliable access protection mechanisms, authentication of the sender of requests/notifications for GS transactions, integrity and confidentiality of information received and stored in BNBGSSS.

13.2.5. It provides a reliable hardware and software platform for the functioning of BNBGSSS in a secure communication environment, ensuring the issuance and management of the necessary QES certificates. The Bulgarian National Bank applies established security management practices to the BNBGSSS.

13.2.6. It may impose additional security and business continuity requirements on all participants.

13.2.7. Notifies all BNBGSSS participants in advance when making changes to the functioning of the System, providing the necessary time to prepare and test their systems for connection to BNBGSSS.

13.2.8. Provides an environment for conducting tests when making changes to the System, at the request of a BNBGSSS participant, and when a new participant is included.

13.2.9. Ensures the operation and development of BNBGSSS in accordance with the Principles for Financial Market Infrastructures of the CPMI and IOSCO, and the current European norms in this area.

13.3. Rights and obligations of the BNB when providing services through BNBGSSS

In its capacity as BNBGSSS operator, the BNB acts professionally and makes maximum efforts to provide services to system participants as follows:

13.3.1. The Bulgarian National Bank, as the BNBGSSS operator, has the following responsibilities such as:

- 13.3.1.1. Operation, maintenance and updating of BNBGSSS and its interface with the other systems;
- 13.3.1.2. Registration of certificates;
- 13.3.1.3. Registering and resolving incidents impeding the functioning of BNBGSSS.

The Bulgarian National Bank assumes no obligations and is not bound by any guarantees or recommendations relating to:

- the risk that any transfer of securities made by a participant may subsequently be declared invalid or unenforceable despite its registration and recording in accordance with these Rules;
- the risk that the transfer of pledged securities to an account in BNBGSSS will subsequently be declared invalid or unenforceable, or that any temporary or permanent impediment may prevent the transfer;
- the reliability, quality and availability of the services offered by communication service providers.

BNB is the sole owner of the IT infrastructure supporting the functioning of BNBGSSS, which consists of both hardware (servers, computers, telecommunication facilities) and

software. For this purpose the BNB, as an operator of the System, undertakes all necessary and reasonable actions and measures for:

13.3.1.4. Protecting its IT-infrastructure and its components, including its interface with other systems from:

- intrusion, theft, fraud:
- deletion or corruption of sensitive data:
- damage or malfunction of the BNBGSSS infrastructure.

13.3.1.5. Eliminating in the shortest possible time any problem that occurs in the infrastructure of BNBGSSS and its components, including its interface with other systems, for example by resorting to appropriate backup and business procedures in emergency situations. The resolution of incidents and problems follows the principles of good European practice, applying all appropriate actions, in compliance with the BNBGSSS emergency operation procedure.

13.3.1.6. Informing the participants about incidents, creating incident reports. The incident report is prepared in order to provide all interested parties with a comprehensive analysis of the events, possible solutions and follow-up actions and corrective measures taken. The initial report for the incident must be submitted no later than 4 hours after the moment a significant operational or related to security incident is detected for the first time. The final report is provided within two weeks, after it is determined that normal operations have been restored.

13.3.1.7. BNBGSSS performs periodically (at least once a year) tests and reviews the operational rules, policies and procedures with the BNBGSSS participants in the following cases:

- when there are significant changes in the System
- after operational incident affecting the continuous provision of services on behalf of BNBGSSS.

13.4. Integrity of issues

13.4.1. BNBGSSS guarantees the integrity of each issue of government securities from the moment of its issuance until its maturity in accordance with Art. 7 of Ordinance No. 31. For this purpose, BNBGSSS applies certain reconciliation mechanisms that ensure that the aggregate nominal value of each issue of government securities reflected in the issuer's relevant account is equal to the sum of the nominal values of government securities reflected in the participants' GS settlement accounts (own, for general customer purposes and for encumbered government securities).

13.4.2. BNBGSSS applies the principle of double-entry bookkeeping. Every day, at the end of the system day, a reconciliation is made of the data on government securities registered in ESROT with those kept on the separate GS settlement accounts in the GSD System.

13.4.3. BNBGSSS monthly reconciles the data on the government securities kept in the register in BNBGSSS with the data on the government securities kept in the registers of the GS sub-depositories and of the issuer (MoF).

13.4.4. Whenever demanded by the System participants, BNBGSSS provides them with statements of their GS registers/accounts as of a certain date and/or of the movement thereon for a certain period of time.

13.4.5. BNBGSSS ensures real-time access of the System participants to the information on their registers of government securities (their own, clients' and blocked securities).

13.4.6. BNBGSSS does not allow GS overdrafts, debit balances or creation of government securities.

13.5. Connections to other depositories which use a common settlement infrastructure

13.5.1. Before establishing connections to other securities depositories, GSD identifies, assesses, monitors and manages all possible sources of risk arising from the established connection.

13.5.2. The connection is based on appropriate arrangements formed as a written agreement which sets out the relevant rights and obligations of the connected depositories. The arrangements which produce effects in more than one jurisdiction must unambiguously specify the relevant law that governs every aspect of the linked operations.

13.5.2.1. The central securities depositories connected to GSD must have in place robust reconciliation procedures to ensure the accuracy of the data stored by them.

13.5.2.2. Where appropriate and feasible, the connections between GSD and central securities depositories must enable DVP settlement of transactions between the connected central securities depositories.

13.5.2.3. Once it has joined the TARGET2-Securities (T2S) platform, GSD establishes interoperable links with other central securities depositories, for which the depositories agree to use the common technical settlement solutions of T2S.

By signing the T2S Framework Agreement, central securities depositories are bound to apply equivalent time of finality rules for the transfers of securities and funds and to include:

- the same times to input instructions;
- irrevocability of transfer instructions.

13.5.2.4. GSD updates, at least once every two years, the depository's self-assessment disclosure framework to ensure compliance with the CPMI and IOSCO principles for financial market infrastructures. GSD publishes the up-to-date self-assessment on the BNB's official website.

GSD undertakes to act only in accordance with the instructions, submitted by the participants in the form and within the terms, specified in these Rules and Procedures.

13.6. Responsibilities of the BNB

The Bulgarian National Bank is only liable for damages caused in the following cases:

- through wilful misconduct or gross negligence;

BNB is under no circumstances liable for:

- any indirect, consequential, incidental or punitive damages or expense (including loss of revenue or anticipated profits, loss of business, loss of public image or damage to reputation), even if BNB has been informed of such loss, damage or expense;
- damages resulting from non-compliance by any participant with the rules and procedures set forth in these Rules.

The Bulgarian National Bank is not liable in case of force majeure or other causes or external events that cannot be attributed to the BNB, as well as malicious damage caused by third parties.

13.7. Responsibilities of the GSD management staff at the BNB

The GSD is part of the structure of the Fiscal Services Directorate, Banking Department of the BNB. The management staff of the GSD:

- determines the functions and tasks of the GSD in accordance with the contractual relationships with the Ministry of Finance, as well as the goals and strategy for their achievement, creating the necessary organisation for functional development and improvement of the GSD-operated system;
- the head of Fiscal Services Directorate performs the functions of a risk manager, and for this purpose creates the necessary organisation in the GSD related to the development and implementation of risk management procedures; carries out a comprehensive assessment of the operational risks and security-related risks in relation to the GSD activities, as well as the

adequacy of the mitigation measures and control mechanisms applied by it in relation to these risks;

- organises, directs and coordinates the overall activity of the GSD with regard to registering and servicing of the internal government debt, the smooth functioning of the GS market and the regulation and control jointly with the Ministry of Finance of the GS registration systems run by its participants;
- ensures compliance with all regulatory and supervisory requirements applicable to GSD; directs and coordinates the activity of improving the regulatory framework regulating the market of government securities issued in the domestic market;
- subjects risk management, compliance and internal control procedures to regular review and testing;
- consults with the BNBGSSS Users' Committee on issues related to projects for innovations, modifications and enhancements of the software applications of the system for registration and settlement of government securities, as well as the means of communication of the System;
- organises and supervises the conduct of tests with the participants in BNBGSSS of new functionalities and enhancements of the system, or at the request of any participant. For this purpose, it creates the necessary organisation in the BNB and with the participants for the conduct of the tests and for the timely notification of the results.

14. Participants' rights and obligations

14.1. Representation and Warranties

Each participant declares and guarantees to the BNB that:

- it has the authority, under its articles of association and under any applicable law, to enter into an agreement to participate in the BNBGSSS, to hold government securities in the BNBGSSS and to participate in the System;
- is fully familiar with all documentation related to the requirements for participation in the BNBGSSS and complies with all obligations under these Rules and Procedures;
- complies with all applicable regulatory documents related to the requirement to combat money laundering and the financing of terrorism or fraud;
- complies with all its obligations in accordance with the EU regulatory requirements;
- all applicable legal, tax or regulatory requirements for disclosure or reporting of holding, control and proof of beneficial ownership with respect to government securities held by BNBGSSS participants have been complied with;

- all information about the participant provided by him to the BNB in connection with his participation in the BNBGSSS has at all times been and will be correct, unless the BNB is notified to the contrary.

14.2. Participants' rights and obligations

14.2.1. Each participant has the exclusive, personal and non-transferable right to use BNBSSS in connection with the settlement of government securities transactions. To this end, the BNB grants to each participant, all rights related to the software and applications of the BNBGSSS that are necessary to ensure the right of the respective participant to use the BNBGSSS.

14.2.2. Each participant undertakes to:

14.2.2.1. Comply with the regulatory framework of Bulgarian and European legislation and the regulatory requirements applicable to its participation in BNBGSSS.

14.2.2.2. Comply with all of its obligations under these Rules and Procedures.

14.2.2.3. Inform the BNB of all incidents that have occurred in the BNBGSSS, which may have an impact on other participants in the System. BNB may request additional information about the incident and also request the participant to take appropriate measures to prevent the recurrence of such an incident.

14.2.2.4. Comply with all additional information security requirements that the BNB may impose.

14.2.2.5. Build and maintain its own systems for working with BNBGSSS;

14.2.2.6. Provide qualified personnel to work with BNBGSSS.

14.2.2.7. Upon request by the BNB, to provide any information, including information about their clients.

14.2.2.8. Implement adequate security controls to protect their systems from unauthorised access and use. Participants are solely responsible for adequately protecting the confidentiality, integrity and availability of their systems.

14.2.2.9. Not to use for any purpose the government securities belonging to its clients unless the participant has obtained the prior express consent of the client in accordance with applicable law.

14.2.2.10. Any System participant acknowledges and agrees that the participant will comply with the instructions received under these rules and procedures, and the BNB takes it on trust that the used communication facilities (with qualified *electronic signature certificates* via a VPN environment and identification of SWIFT messages) are provided by the participant itself or by a person duly authorised by that participant. The Bulgarian National Bank is not at all liable for the features of these communication means. The telephone calls between the BNB and a System participant's representatives do not give rise to any obligations or responsibilities or waiver of rights for BNBGSSS.

15. Actions in the event of problems in BNBGSSS

15.1. Actions in the event of communication and technical problems

In the event of a problem when working with BNBGSSS, participants in the System notify the Fiscal Services Directorate, Government Securities Depository Division, **at telephone number: (02) 9145 1336**. At e-mail: **FS@bnbank.org** all inquiries regarding problems arising when working with the System are registered, and where possible, when submitting the message by e-mail, the system message about an error appearing on the screen of the respective BNBGSSS workstation is also sent.

15.2. Notification when the work process of BNBGSSS is interrupted

Possible reasons that may cause the process of registration and settlement of government securities operations to be interrupted:

- violation of BNBGSSS performance due to technical reasons;
- technical problems in TARGET-BNB;
- existence of force majeure circumstances, such as power failure, etc.

In case of technical problems, the contact persons designated by the participants in the System are notified. When normal operation is restored, participants will be notified immediately.

15.3. The following cases are not considered grounds for declaring an emergency

15.3.1. When the normal course of operations is disrupted due to liquidity difficulties of any of the participants in BNBGSSS;

15.3.2. When a participant in BNBGSSS declares that some of their internal systems are down due to a technical or other problem.

16. Procedure and conditions for submitting, registering and processing complaints from BNBGSSS participants to the BNB Depository

Any BNBGSSS participant may submit complaints in person or by proxy in one of the following ways:

- by letter to the correspondence address published on the BNB's official website in the Customer Service section: BNB, Knyaz Alexander I Square №1, 1000 Sofia;
- on site at the BNB office in the BNB building,
- at email address: **BNB-Delovodstvo@bnbank.org**,

The complaint is submitted in writing in free text and is registered in the BNB record-keeping system on the day of its receipt. The complaint contains the following information:

- a) name of the applicant (including the proxy, if any);

- b) postal and/or electronic address for correspondence and/or telephone number for contact;
- c) statement of the case;
- d) list of attached documents (if available);
- e) date and signature of the person who submitted the complaint.

Anonymous complaints are not considered.

A registered complaint is considered in the Fiscal Services Directorate, and if necessary, assistance is required from the Legal Directorate.

A reasoned response is prepared within 15 calendar days. When an extension of the cited term is necessary, the complainant is notified in writing. The deadline for a response to the complaint is one month.

The Bulgarian National Bank stores all information related to received complaints in electronic and/or paper form, within the statutory deadlines.

The Government Securities Depository and the BNBGSSS Participant must make every effort to resolve any disputes that may arise and reach an agreement. For unsettled issues, the norms of the relevant Bulgarian legislation are applied

17. Protection of confidential information and personal data

17.1. Protection of confidential information

The BNBGSSS activity is carried out in compliance with the Internal Rules for the protection of confidential information and the Law on Personal Data Protection. BNBGSSS participants do not disclose confidential information to any third party.

Confidential information is any information related to the features, settings and functioning of the BNBGSSS, regardless of whether the information is of a commercial, financial, regulatory, technical, or other nature, belonging to the BNB or another participant, which has not been publicly disclosed without breach of any obligation for privacy.

Participants may use confidential information about the BNBSSSS only for the purpose of operation, maintenance, further development, implementation assistance and training services related to the BNBGSSS. As a rule, participants do not disclose confidential information to any third party or to any person other than their staff, branches, contractors or any other person who must have access to it for the proper functioning of the BNBGSSS, except with the express prior written consent of the holder of the confidential information. Participants must take reasonable technical measures to limit access to confidential information to persons authorised to have such access and ensure that their employees, branches, contractors or any other person who receives or will receive confidential information in accordance with the rules set out in this article, operate in full conformity with these rules.

All instructions submitted by participants, whether on their own behalf or on behalf of their client, and all data related thereto, will be accessible only to the relevant participant and its counterparty for the sole purpose of the proper settlement of the transaction.

The confidentiality obligations under this Article do not apply where disclosure is required:

- for the protection in court, arbitration or similar legal proceedings of the legal interests of the BNB or of a participant, or
- under applicable national law or mandatory regulation, but only within strict limits imposed by such national law or mandatory regulation.

The obligations of confidentiality are valid for an unlimited period of time after the date of withdrawal or exclusion of a participant or termination of his participation in BNBGSSS.

17.2. Protection of personal data

The Participant in the System notifies the BNB of any change related to the personal data that it has communicated within the Agreement for participation in the BNBGSSS.

The Bulgarian National Bank and the BNBGSSS Participant must comply with applicable data protection legislation with respect to any processing of personal data under this Agreement, including the processing of personal data in BNBGSSS.

The Participant must notify the BNB without undue delay of any change related to the personal data that it has communicated within the framework of the Agreement.

18. Inseparable parts of these rules and procedures are the following documents:

Annex No 1 – Table of the codes of GS registers/accounts of a BNBGSSS participant with the code CCCC;

Annex No 2 – Codes used for the types of transactions under Ordinance No 5;

Annex No 3 – Types of SWIFT (ISO 15022) messages used by BNBGSSS;

Annex No 4 – Valid types of incoming SWIFT messages by type of transaction;

Annex No 5 – Response messages to incoming messages;

Annex No 6 – Error codes in checking and processing SWIFT messages received in the Government Securities Depository.

These rules and procedures come into effect as of 16 May 2023.