

INSTITUTIONAL AND POLICY FRAMEWORK FOR THE DEVELOPMENT OF CAPITAL MARKET IN BULGARIA

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(Action Plan)

Action Line 1.

Development of a System to Support Market Infrastructure

The existing legal and institutional framework and available technical facilities in the Bulgarian capital markets do not work very efficiently towards supporting a fully developed securities market. The necessary legislation, institutions and technical facilities must be put in place, so that, over time, a market will develop which will be able to absorb the volumes normal for a country of the size of Bulgaria and, potentially, international trades. The following discussion presents specific issues that need to be addressed, so that said purposes could be met.

Action Line 1.1.

Optimizing Regulatory Authority in Line with European and International Standards

Action Line 1.1.1.

Power to Regulate the Over-the-Counter Market

Background

The Securities and Stock Exchange Commission (hereinafter, the "SSEC") does not have the power to initiate or enact rules governing the OTC market, nor does it have the power to issue rules on record-keeping, reporting, internal organization, internal control and conflict of interests avoidance in respect of investment intermediaries. Thus, the OTC market development becomes a volatile process, which does not guarantee that international standards will be eventually met.

Objective

Create legislative delegation for an executive agency (most probably the Council of Ministers; hereinafter, the "CoM") to issue secondary rules governing the OTC market. That will enable this very important segment of the market to develop and function according to the principles of transparency, competition and accountability. In particular, the investment intermediaries' (hereinafter, the "IIs") internal structuring, information disclosure, conflict of interests, accounting

procedures, and loyalty and fairness standards should be regulated in order to improve investor protection.

Actions

Amend the Law on Securities, Stock Exchanges and Investment Companies (hereinafter, the "LSSEIC") accordingly.

Timeframe

One to two months.

Action Line 1.1.2.

Power to Regulate the Stock Exchange

Background

The SSEC does not have efficient control mechanisms to guarantee that the stock exchange (hereinafter, the "SE") will operate according to high standards, especially as regards its Internal Rules. After the SE is licensed, the modification of its Internal Rules is within its own discretion, which potentially may become detrimental to investors.

Objective

The SSEC must be granted approval powers, as regards subsequent amendments to the SE Internal Regulations. Thus, adequate trading and disclosure of information rules, as well as fair disciplinary procedures will be ensured.

Actions

Amend the LSSEIC accordingly.

Timeframe

One to two months.

Action Line 1.1.3.

Fostering Compliance and Streamlining Trade

Background

Market development is hampered by the regulatory mechanisms' failure to cause all market participants to follow formal market procedures (such as registration, maintenance of up-to-date registration records, provision of information in its various forms, etc.) and to obey the rules of the market. If the market is to develop in compliance with the legally established model, greater compliance with regulatory rules and further streamlining of the regulated securities trade are desirable. Such a policy, however, is frustrated by the excessive fees charged by the SSEC (which results in avoidance of various regulatory procedures) and by the lack of fear from the relatively soft penalties.

Objectives

Registration and other fees charged by the SSEC should be substantially reduced. That will stimulate players on the market to comply with all registration and supervision requirements. The SSEC's revenues will most likely not drop, due to the increase of turnover resulting from lower fees. In parallel, the law must provide for stiff penalties for violators. That will increase the discipline of all players on the market.

Actions

Amend the LSSEIC and the Fee Schedules of the SSEC accordingly.

Timeframe

One to two months.

Action Line 1.2.

Resolve the Problems Linked to Title in Publicly Traded Securities

Action Line 1.2.1.

Remedying Duality of Title Registration

Background

Current law maintains a dual system of registration of title in publicly traded securities: the Book of Shareholders maintained by the publicly traded company and the Central Securities Depository's (hereinafter, the "CDS") registry. Potential discrepancies between these two registrations and lack of publicity and control by shareholders over what is registered in the Book of Shareholders, insert a lot of title uncertainty in the system.

Objective

Reach a high level of certainty as to who has title in publicly traded securities, thus achieving high liquidity of the market and increasing credibility of public trade.

Actions

Amend the LSSEIC in a way to exclude the applicability of Law on Commerce (hereinafter, the "LC") rule about securities title registration in the Book of Shareholders. Thus, make registration (or lack thereof) with the CDS the only relevant title record as to publicly traded securities. Proposed action must be taken with respect to both certificated and uncertificated securities.

Timeframe

One to two months.

Action Line 1.2.2.

Disabling Internal Trading Restrictions

Background

Current law allows companies to enact trading restrictions regarding their shares and make them effective against third parties by just writing them in the company's by-laws. Lack of publicity of the by-laws exposes third-party purchasers of securities to substantial risk of bad title. While such limitations are acceptable as regards securities of "private" companies, they are totally unacceptable as regards securities admitted to public trade.

Objective

Remove uncertainty in title to publicly traded securities by disallowing publicly traded companies to create trading restrictions binding on third parties, thus achieving high liquidity of the market, increasing credibility in public trade and enhancing domestic and foreign investors confidence.

Actions

Amend the LSSEIC in a way to exclude the applicability of the LC rule authorizing third-party-binding share transfer limitations, as regards companies whose shares are admitted to public trade.

Timeframe

One to two months.

Action Line 1.2.3.

Giving Investors' Rights Priority over IIs' Creditors' Rights

Background

Current law does not address well the issues linked to the conflict of rights of an II's client and an II's creditors. Those become the sharpest in a bankruptcy situation where investors in securities held (in custody or account) by the II in (i) II's name and for the investor's account, or (ii) in the investor's name and for the investor's account, may not defend their rights against creditors of the II.

Objective

Segregate the IIs' portfolios into II's personal portfolio and II's clients' portfolio. Securities held in a custodial, safekeeping or other fiduciary capacity must be segregated from proprietary holdings and maintained to the level of beneficial owner detail. A situation should be excluded where the II's creditors may reach over to securities held (in custody or account) by the II in (i) II's name and for certain investor's account, or (ii) in an investor's name and for the investor's account. That will help achieve high liquidity of the market and increasing credibility of public trade.

Actions

Amend LSSEIC to protect client accounts, including segregation provisions. As a most efficient measure, an exclusive CDS title registration system may be recommended. That will guarantee

the credibility of title registrations (including of beneficial ownership) and correct timing log of transactions. Creditors of the II will not be abused, while II's clients' interests will be guaranteed.

Timeframe

One to two months.

Action Line 1.3.

Efficient Clearing and Settlement

Action Line 1.3.1.

Creation of Detailed Rules Providing for One Centralized Clearing and Settlement System

Background

Law does not adequately address clearing and settlement. There is only a concise set of low level legal provisions contained in the CDS Regulation. Further development of those rules is made in the CDS's internal Rules.

Objective

Design and implement one central clearing and settlement system with the CDS. If necessary, by law grant the CDS a license to engage in settlement (otherwise a banking activity). All public trade must be cleared and settled through said system. The clearing and settlement process, guarantee funds, and securities held on behalf of others, must be insulated from interference of bankruptcy proceedings. Said system must be provided for on the level of law enacted by Parliament.

Actions

Supplement the LSSEIC by a new chapter dedicated to CDS functions, clearing and settlement.

Timeframe

One to two months.

Action Line 1.3.2.

Coordinate Improvement of Clearing and Settlement with Improvement of Title registration

Background

Issues discussed in Action Line 1.2 (title issues) are relevant to clearing and settlement. Therefore, their importance should be additionally evaluated with a view to improving clearing and settlement

Objective

Improve title registration and other title issues with a view to improving clearing and settlement. To this end, remove the mandatory requirement of the LC for uncertificated shares numbering.

Actions

Same as above

Timeframe

One to two months.

Action Line 1.4.

Improve the SE Mechanisms

Action Line 1.4.1.

Increase SE Accountability

Background

At present, there are no obligations by law for the SE to keep track of trades and report to the SSEC in relation to trading activities. This is a missing link in the mechanism of providing for a secure market and departs from standards set in EU law.

Objective

Accountability of the SE must be increased. SE must keep track of trading activities and submit periodic reports to the SSEC. The reporting must be done according to standard formats, to be provided for by special regulation.

Actions

Amend the LSSEIC in a way to authorize the issuance of a Regulation on SE Reporting.

Timeframe

One to two months.

Action Line 1.4.2.

Provide for Discontinuation of Trade in Securities, Which are Traded Without a Contract

Background

Current law does not address the issue of involuntary discontinuation of trade in securities the issuers of which do not have a contract with the SE. That creates risk of abusive SE behavior.

Objective

Provide for terms and conditions for the SE to drop issues of securities traded without a contract, for example only after public notice and opportunity for comment. That will stabilize the relevant segment of the market, which is expected to be relatively important in the initial stages of securities trading where trading without a contract will most likely prevail. This is particularly

relevant with respect to mass privatization issues, if a separate stock exchange tier for trading of those issues will be available.

Actions

Amend the LSSEIC to mentioned effect.

Timeframe

One to two months.

Action Line 1.5.

Improve the Legal Framework for IIs

Background

IIs, as they are provided for in the LSSEIC, reveal substantial shortcomings. A major problem is the absence of "custodian services" from the list of the possible subject of activities of IIs. Absent that power, only banks but not regular IIs could become involved in the provision of custodian services.

Objective

IIs need to be provided for in a way, which enables them to provide the full range of services to their clients. In this respect, custodianship services, both in regard to physical custody of certificated shares and maintenance of securities accounts, must be authorized. As part of that, an important function of IIs that must be authorized by law is the maintenance of client accounts.

Actions

Amend the LSSEIC accordingly.

Timeframe

One to two months.

Action Line 1.6.

Create and Improve an Organized OTC Market

Action Line 1.6.1.

Introduction of Disclosure Requirements

Background

OTC market is totally unregulated. Minimal requirements for disclosure of information, regular price quotations, reporting of traded volumes, etc. must be provided for.

Objective

Enable this very important segment of the market to develop and function according to the principles of transparency, competition and accountability.

Objective

Amend the LSSEIC to mentioned effect.

Timeframe

One to two months.

Action Line 1.6.2.

Create Legislative Backup for the Electronic Document

Background

The OTC market is emerging and will certainly even more develop as a market of uncertificated securities and an electronic market. That raises a number of potential issues: authentication of electronically generated and transmitted purchase requests and offers; safeguarding against electronic data transmission errors; safeguarding against criminal behavior by way of interference with the electronic trading systems; etc.

Objective

Create a concept of an electronic document well grounded in the law. Make electronic messages exchanged in the course of trade as reliable, as the written documents exchanged in the course of traditional trade. In the context of electronic commerce, enable electronic title registration in the CDS Registry.

Actions

Develop and enact an Electronic Document and Electronic Signature Law.

Timeframe

Twelve to eighteen months.

Action Line 1.6.3.

Automated Quotation System

Background

An OTC market requires an automated quotation system. Thus, competing dealers will be linked through a data network.

Objective

Create an automated quotation system. Thus, bid and offer quotations will be entered by dealers and will be made available to users on a real time basis.

Actions

Start working towards designing and implementing an automated quotation system. As a short-term solution, create a temporary automated quotation system operating via leased lines, to be served by Dow Jones/Reuters.

Timeframe

Three to twenty-four months.

Action Line 1.6.4.

Enable Self-Regulation of the Organized OTC Market

Background

The OTC market, just like the SE, must be self-regulated to a great extent. Therefore, similarly to the role of the SE as regards the SE market, the institutionalization role as regards the OTC market must be played by a private or quasi-governmental institution. Absent such an institution, an organized OTC market is unthinkable, for there will be no entity to take charge and responsibility of putting the necessary infrastructure in place. That will also enable self-policing as the utmost guarantee for fair trading.

Objective

Accommodate in the legislation a possibility for a NGO representative for all dealers/brokers to be put in charge of organizing an automated quotation system, adopting and enforcing standards of fair dealer/broker practices, adopt OTC trading rules, advertising standards, disciplinary procedures for members, etc.

Identify/develop an automated quotation system to be implemented in creating an electronic OTC market.

Actions

Amend the LSSEIC accordingly.

Commence work towards developing an automated quotation system

Work towards promotion of a legitimate NGO representative of all dealers/brokers.

Timeframe

Six to twenty-four months.

Action Line 1.6.5.

Separation between Investment and Commercial Banking

Background

Bulgarian law does not provide for institutional separation between investment and commercial banking activities. While in itself this is not strange by international standards, it must go along with clear and severe rules for building "Chinese walls" inside banks with the purpose of severing their simultaneous investment and commercial banking activities. Absent such rules, conflict of interests and abuse of insider information are likely to flourish to the detriment of the securities market in general.

Objective

Bring banks involving simultaneously in commercial and investment banking, to high standards of behavior guaranteeing complete separation between their "commercial" and "investment" arms.

Actions

Amend the Law on Banks accordingly.

Timeframe

Two to six months.

Action Line 1.7.

Improving the Disclosure of Information Requirements for Publicly Traded Companies

Action Line 1.7.1.

Optimize Prospectus Updates

Background

Current law requires continued "updates" of already issued prospectuses, even after the public offering has ended, alongside with periodic disclosures of information. That is quite burdensome both on the SSEC and the publicly traded companies.

Objective

Remove the requirement for prospectus "updates" after the end of the offering, while preserving the periodic disclosure of information requirement.

Actions

Amend the LSSEIC accordingly.

Timeframe

One to two months.

Action Line 1.7.2.

Introduce Disclosure Requirements for Companies with Numerous Shareholders

Background

At present the law does not address the situation where one company "involuntarily" becomes publicly traded by virtue of high level of dispersion of its capital. Although technically company's stock was never publicly offered, the risk for the numerous small investors becomes substantial.

Objective

Provide for submission to the periodic disclosure of information requirements (annual and semiannual reports) of companies which have not done a public offering but whose shareholders have exceeded a certain number (say, 500). Thus a high-risk area will be provided for and investors will become better protected.

Actions

Amend the LSSEIC accordingly.

Timeframe

One to two months.

Action Line 1.7.3.

Optimize Public Takeover Procedures

Background

At present, any person who is willing to purchase more than 25% of the securities in a company with publicly traded shares, must get an approval by the SSEC and the Committee on Protection of Competition (hereinafter, "the CPC"), before such a person may place its offer before the shareholders. That procedure is unworkable and will result in factual prohibition of similar acquisitions.

Objective

Provide for a workable procedure for acquisition of large quantities (above 25%) of the shares in publicly traded companies. All substantive requirements before a legitimate offer must be preserved. However, it is necessary to remove the requirement for prior verification of compliance by way of approval of the offer by the SSEC and the CPC. Rather, purchase-offerors must be required to immediately inform the SSEC about initiated acquisitions, thus allowing the SSEC to monitor the process and intervene, would there be a violation of substantive requirements.

Actions

Amend the LSSEIC accordingly.

Timeframe

One to two months.

Action Line 1.8.

Creation of a Mechanism for Publicly Traded Companies to Go Back to Private Company Status

Background

Current law does not address the entire situation where a company that has gone public has, as a matter of fact, become substantially private. Therefore, such a company is bound to drag along forever and comply with disclosure of information and regulatory requirements, which are not justified. Thus, a substantial amount of energy and effort is lost both by companies and regulators, not to mention the market participants whose world will become more and more filled by "phantom" publicly traded companies.

Objective

Create mechanisms for publicly traded companies which in substance have become or want to become private, to be exempted from disclosure of information and other regulatory requirements. This may include a mixed approach. On the one hand, any company must be given the freedom to "self-determination" and, provided its shareholders interests are protected, must be allowed to stop being publicly traded. On the other hand, under certain criteria, the SSEC must have powers to relieve public companies from reporting requirements, thus allowing them to discontinue their "public status". That will allow for a "clearing" mechanism to be developed, so that efforts would not be spent in vain by society for maintaining a formal public status of numerous companies, which have become substantially private. This issue is particularly relevant in the case of some of the shares, privatized in the process of mass privatization, which are expected to be traded for an initial period, but might become privately held after ownership is settled.

Actions

Amend the LSSEIC accordingly.

Timeframe

One to two months.

Action Line 1.9.

Protection of Minority Shareholders in Publicly Traded Companies

Background

While in closely held corporations the protection of minority shareholders is usually not a problem, protection of minorities in public companies must be carefully provided for. Possibility for dilution of minority shareholders is among the more undesirable phenomena.

Objectives

Minority shareholders in publicly traded companies must be properly protected from dilution. In this respect, the possibility of waiving shareholders' right to subscribe for newly issued shares in proportion to their current shareholding must be restricted for public companies. In addition to high majority requirements (3/4 of the capital), high quorum requirements might be recommended.

Actions

Amend the LSSEIC in a way to supplement the LC 3/4-majority anti-dilution guarantee with a quorum anti-dilution guarantee, as regards companies whose shares are admitted to public trade.

Timeframe

One to two months.

Action Line 1.10.

Improving T-Bills Trading Mechanisms

Action Line 1.10.1.

Creation of an Adequate, Non-Contradictory Legal Framework of T-bills Trade on the Level of Law

Background

Under current law, T-bills trading is not adequately provided for. In the context of a legal framework for securities provided for by an Act of Parliament (the LSSEIC), T-bills issuance and trade is governed by inferior legislation, such as a Regulation by the Bulgarian National Bank (hereinafter, the "BNB") and the Ministry of Finance. Said regulation, on the one hand, and LSSEIC and other legislation, on the other hand, are in outright conflict as regards a number of issues. That creates risks for investors relying on a formally illegitimate legal framework.

Objective

Provide for T-bills trading through an act of Parliament. In doing this, all conflicts between the current T-bills legislation and the LSSEIC must be resolved. That may happen by way of accommodating the necessary provisions governing issuance, trading and registration of title to T-bills in the LSSEIC.

Actions

Draft necessary legislation

Timeframe

Three to twelve months.

Action Line 1.10.2.

Create Equal Secondary Market Conditions for all Dealers

Background

Current T-bills law discriminates between primary and non-primary dealers on the secondary securities market. As a result, a proper secondary market may not be formed.

Objectives

All IIs must have equal access to the secondary T-bills market. That will contribute towards competitiveness of the market and will make price formation fairer.

Actions

Draft necessary legislation.

Timeframe

One to two months.

Action Line 1.10.3.

Improve T-bills Registry System

Background

The existing T-bills registry system is not sufficiently operational. It represents a mixture of registries and sub-registries managed by the BNB jointly with primary dealer banks. Such a system is an impediment to real market trade in T-bills.

Objectives

A uniform, centralized registry system for title and other rights in T-bills must be introduced. The BNB or the CDS may run it. A compromise is also possible where the BNB and the CDS jointly operate a centralized system with two departments. The legal effect of registration of title and other rights must be clearly spelled out.

Actions

Draft necessary legislation

Timeframe

One to six months.

Action Line 1.11.

Development of Adequate Taxation, Valuation and Accounting Standards for Securities Trading

Background

The existing taxation and accounting systems are not at all geared towards securities trading. As a result, IIs and other players on the securities market face hardships in properly accounting for their activities and suffers tax losses.

Objective

Adequate standards for taxation and accounting must be developed. Thus, a number of inconsistencies and contradictions frustrating trade will be avoided. Further, information needed by investors, in some instances, differs greatly from information needed by tax authorities.

Regulations and guidelines need to be set forth for the reporting of investment related accounting information.

Actions

Draft amendments to appropriate tax and accounting laws and accounting standards. The SSEC must work closely with appropriate Bulgarian tax authorities to promote the full and fair disclosure of investment accounting reporting requirement. In addition, the SSEC should be granted limited oversight over reporting requirements and at very least, tax authorities should be required to receive SSEC approval on investment related accounting standards.

Timeframe

One to six months.

Action Line 2.

Supply and Demand of Securities, Primary Market Development

A most significant problem of today's securities market is that, while being quite regulated and structured, its has no volumes and practically does not function. Efforts should be made, so that a sufficient amount of relatively high quality securities are supplied to the market. That must happen by opening the door for the only possible source: shares of privatized companies.

Action Line 2.1.

Cash Privatization through Public Offerings

Background

A fast and market driven method of privatization may become the public offering of government owned shares. The impossibility to resort to said method results in shortage of trading volumes on the securities market.

Objective

Provide for the necessary procedures, including for a "prospectus" requirement, so that government owned shares might be privatized through public offerings. Thus, a fair and open market will be developed. The price of privatized shares will be substantially increased as a consequence of the professional offering and the competitive demand.

Actions

Develop and implement a procedure for preparation of stock for public offering by the government. Develop specialized auction procedures.

Timeframe

One to two months.

Action Line 2.2.

Create Tradability of Privatized Shares

Action Line 2.2.1.

Abolition of Trading Restrictions

Background

There is a large amount of outstanding stock that has come from privatization, which, for one reason or another, is not tradable. That stock may become the basis of public trading almost immediately, should the trading restrictions be abolished.

Objective

Abolish all trading restrictions for privatized shares and other shares: workers' preferential shares; mass privatization shares; privatization funds' shares.

Actions

Amend the Law on Transformation and Privatization of State and Municipal Enterprises and the Law on Privatization Funds (LPF)

Timeframe

One to two months.

Action Line 2.2.2.

Improvement of Disclosure of Information Mechanisms

Background

Under current law, mass privatization shares are exempt from prospectus and periodic disclosure of information requirements for the mass privatization auctions. However, should there be formed a secondary market for such shares, privatized companies will have to deal with prospectus issuance. That has not been the legislator's intent and is highly undesirable.

Objective

Mass privatization shares must be exempted from the issuance-of-prospectus requirements with regard to secondary public trading. Thus, trade will develop more vigorously. At the same time, investors' interests must be guaranteed by an obligation for the issuers of such shares to disclose information periodically. The SSEC must have authority to specify the format of such periodic disclosures.

Actions

Amend the LPF accordingly.

Timeframe

One to two months.

Action Line 2.2.3.

Privatization Funds' Books of Shareholders

Background

Books of shareholders in privatization funds are currently maintained only by the funds themselves. That creates opportunity for abuse and confusions as to shareholding in these typical "public" entities.

Objective

Authorize the CDS for the maintenance of the books of shareholders of privatization funds.

Actions

Amend the LPF accordingly.

Timeframe

One to two months.

Action Line 3.

Preparing the Legal Infrastructure for a Self Regulatory Environment

Background

As previously stated, the SSEC does not currently have the means to police the entirety of the capital markets. Several proposals contained herein, most importantly, Action Lines 1.1.1, 1.1.2 and 1.1.3, require the ability of the SSEC to hold responsible, IIs and Self Regulatory Organizations ("SROs") for the actions of their employees and members. In that regard, several broad based policies and laws need to be in place to provide the SSEC with this legal authority.

Objectives

To reduce the regulatory burden of the SSEC by effectively pushing monitoring and disciplinary responsibility down to SRO and member firm levels. To develop registration procedures and requirements for SROs with the SSEC, a previously defined, which gives the SSEC the authority, as well as the obligation, under securities laws to fine, suspend, expel or otherwise discipline member IIs and SROs, and people associated with these members, who have violated securities laws.

Actions

Development of legislation, policies and opinions of the SSEC which emphasize the important role of government oversight in the self-regulatory process and clearly define the lines of accountability between itself, SROs, member firms and their employees as described below.

Timeframe

One to two months.

Action Line 3.1.

Development of Laws and Definitions Necessary to Support Self Regulatory Environment

Action Line 3.1.1.

Development of Laws Governing In-House Compliance Procedures

Background

Current law does not provide for the mandatory development of in-house compliance procedures to guard against fraud, sales and trading abuses and other securities laws infractions. Such legislation is used to deter and detect fraudulent practices at or about the time of their occurrence, and to force immediate corrective measures. For the firm, they also serve as an affirmative defense to a "failure to supervise liability" as described in Action Line 3.1.2 below.

Objectives

To provide the necessary legislation that will clearly define the roles of in house compliance policies and the liability of the firms for failing to adhere to such legislation. These actions foresee the development of provisions that address the misuse of material nonpublic information as well as provide for the requirement for IIs to establish, maintain, and enforce written policies and procedures reasonably designed to prevent the misuse of material nonpublic information by such firms or any person associated with them.

Actions

In accordance with Action Line 1.6.5, create appropriate legislation that not only provides for adequate "Chinese walls," but also requires in-house monitoring of other securities violations and trading abuses.

Timeframe

One to two months.

Action Line 3.1.2.

Failure to Supervise Liability

Background

Current law does not authorize the SSEC to impose sanctions against an II or SRO if it has failed to supervise, with a view to preventing violations (of the federal securities laws), another person who commits such a violation, if such other person is subject to his supervision. Failure to Supervise Liability, coupled with in-house compliance legislation, are essential to the development of an effective self regulatory environment.

Objectives

To provide the necessary legislation that will authorize the SSEC to impose sanctions against an II or SRO if it has failed reasonably to supervise and to impose sanctions for deficient supervision on individuals associated with broker-dealers, respectively.

Actions

Create appropriate legislation in the LSSEIC.

Timeframe

One to two months

Action Line 3.1.3.

Development of Investment Suitability Laws

Background

Current law fails to require IIs to learn as much as possible about his or her clients in order to understand clearly their investment objectives and needs and to keep them away from investments which are not in line with their objectives. Lack of adequate legislation and regulation, and the lure of high commissions, may lead to abusive sales practices. Many times, individual investors that have limited knowledge and little time to understand the financial markets are placed in inappropriate or unsuitable investments.

Objectives

Implement laws and regulations that place the legal and ethical responsibility to provide clients with suitable investments with the investment professionals. Brokers and other financial market participants should be bound by a "know your customer" rule, which forbids them to place an investor in an investment for which he or she is "unsuited" in terms of depth of investment experience, net worth, annual income, investment objectives, and other factors as discussed below under "Accredited" or "Sophisticated" investor definitions.

Actions

To require all SROs and IIs, as terms of registration with the SSEC, to include the basic concept of suitability "know your customer" rules, which require them to use due diligence to learn the essential facts relative to every customer, every order, every cash or margin account accepted or carried by their firms.

Timeframe

One to two months

Action Line 3.2.

Clear Definition of Accredited and Sophisticated Investors

Background

Current law fails to define accredited and sophisticated investors. Accredited investors are generally defined by net worth and sophisticated investors are generally defined in terms of market knowledge. The purpose of these definitions is to provide IIs with guideline with respect to certain investments that may fall outside what the regulatory bodies deem to be "suitable" for the mass investing population. By defining accredited and sophisticated investors, the regulatory

bodies allow for the accelerated placement of unregistered securities which may be issued without standardized disclosure. These rules can play an extremely important role in assisting the SSEC in regulating the sale of securities as defined above under Action Lines 1.4.2, 2.2.1, and 2.2.2.

Objectives

Develop a set of regulations that clearly define accredited and sophisticated investors so that the SSEC has the ability to allow certain investments to reach the market without lengthy registration and disclosure requirements while still maintaining the integrity of the markets and protecting the average investor.

Actions

Develop appropriate definition for an accredited and a definition of a sophisticated investor in the LSSEIC.

Timeframe

One to two months.

Action Line 3.3.

Educating the Population

Background

The most effective means for regulating the market and protecting the general investing population is to have a well educated investment community. An educated public, while guarding their own investment, can also serve as a watchdog for violative practices by market participants. Further, when dealing with educated investors, market participants have the business and legal incentives to develop and adhere to sound SRO rules.

Objectives

To provide for the dissemination of information that discusses what the average investor needs to know about the stocks, bonds and other investments, the SE and over the counter markets, brokers, investment companies and investment advisors, commissions, and who to contact in the case of expected violations.

Actions

Work with IIs and SROs to disseminate appropriate educational material of various content and through various medium.

Timeframe

One to twenty four months.

Economic Program

Publications*

Privatization

Analysis of the Post-privatization Behavior of Enterprises, *by St. Barzashki.*

Survey of the Efficiency of Foreign Consulting Firms, *by D. Bobeva, Y. Markov, S. Dilova, and J. Dobрева.*

Privatization and Economic Restructuring in Bulgaria, Where Is Privatization In Bulgaria Heading To, *by CSD Team*

Debt-Equity Swaps In the Context Of Privatization: the Case Of Bulgaria, *by S. Kassidova.*

Development Of the Private Sector In Bulgaria, *by D. Bobeva and CSD Team.*

Evaluation Of Privatization Results for 1994, *by D. Bobeva.*

Initial Attitudes Towards Mass Privatization.

Postprivatization Behavior Of Enterprises In Bulgaria: a Collection of Case Studies, *by D. Bobeva, S. Dilova, and S. Stefanov.*

Legal and Institutional Framework Of the Private Sector, *by Valentin Georgiev*

Privatisation Funds - the Bulgarian Model *by M. Prohaska*

Policy and Legal Environment for the Growth of the SME Sector in Bulgaria, *by CSD Team.*

Monitor of Privatization.

(bi-monthly digest of the Bulgarian press)

www.online.bg/econ/privatization/monitor

Banks and Finance

Bad Credits: Financial and Institutional Aspects, *by Christina Vutcheva*

Debt Conversion Program: Guidelines for Bulgaria, Final Study, *by M. Todorova*

Social Impact of Transformation

Emigration Of Scientists and Engineers From Bulgaria, *by D. Bobeva.*

Unemployment, Poverty, Social Security: the Bulgarian Experience, *by G. Shopov.*

The Labour Market Policy In Bulgaria (1990 - 1993), *by D. Bobeva.*

At-Risk Groups and Social Problems in Bulgaria, *by CSD Team.*

Unemployment and Labor Market In Bulgaria, *by Yordan Hristoskov.*

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