

# INVESTOR COMPENSATION FUND

2009

## ANNUAL REPORT



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**LIST OF ABBREVIATIONS**

ABB – Association of Banks in Bulgaria;

BALII – Bulgarian Association of Licensed Investment Intermediaries;

BNB – Bulgarian National Bank;

BSE – Bulgarian Stock Exchange;

GS – Government Securities;

EC – European Commission;

EU – European Union;

LPOS – Law on Public Offering of Securities;

LMFI – Law on Markets in Financial Instruments;

FSC – Financial Supervision Commission;

MB – Management Board;

DIF – Deposit Insurance Fund;

ICF – Investor Compensation Fund;

ICSD – Investor Compensation Schemes Directive;

EFDI – European Forum of Deposit Insurers;

FDIC- Federal Deposit Insurance Corporation;

SIPC- Securities Investor Protection Corporation.

### *The Global Financial Crisis and Investor Compensation Schemes*

The global financial crisis continued in 2009 and the participants in the financial sector in the country confronted a number of challenges. The year of 2009 was one of the most difficult years for the capital market. The Bulgarian Stock Exchange (BSE) turnover dropped approximately with 60% compared to 2008 and the number of the realized transactions, decreased by 49%<sup>1</sup>. The decrease in the prices of financial instruments affected also investors, eligible to compensation. Clients' assets, eligible to compensation, lost 53% of their value compared to 2008.

The global financial crisis revealed in the last years one important circumstance, concerning the protection of consumers of financial services. In times of a huge financial crisis, the investor compensation schemes proved to be insufficient to cover clients' claims and the schemes would be in a difficulty to collect additional funds. The cases of compensation payments to the clients of the American company Bernard L. Madoff Investment Securities LLC<sup>2</sup> by the Securities Investor Protection Corporation (SIPC) and deposits payments to the depositors in the bankrupted banks by the Federal Deposit Insurance Corporation (FDIC)<sup>3</sup> showed that the funds, accumulated for years, could be quickly spent and those schemes could confront serious financial problems. There are also cases of shortage of funds and difficulties in collecting additional funds, confronted by the investor compensation schemes in Germany and in the Czech Republic.

The crises put hardship not only to the participants in the financial sector, but also to the supervisory bodies. The supervisory bodies are expected to undertake adequate measures for prevention and limiting the negative consequence, arising from the financial destabilization. In this

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<sup>1</sup> The data published on the BSE Internet site are used.

<sup>2</sup> According to the data provided by the Securities Investor Protection Corporation ( [www.sipc.org](http://www.sipc.org)) the compensation paid to the deceived clients in the Madoff case exceed 1,4 billion dollars, and the total amount of the investors' losses is over 21 billion dollars.

The Madoff's company went bankrupt on the 15<sup>th</sup> of December 2008.

<sup>3</sup> In 2009 140 banks in the USA went bankrupt and the FDIC faced a deficit of over 20 billion dollars (according to the data, published on [www.fdic.gov](http://www.fdic.gov), the FDIC had collected more than 50 billion dollars before the financial crisis).

relation on the 11<sup>th</sup> of March 2009 the European Commission (EC) undertook changes in the Directive 94/19/EC on the Deposit Guarantee Schemes as the minimum level of the guarantee was increased by 50 000 EUR and the period for the compensation payments was decreased. By those activities, the EC aimed at preventing bank panics. Subsequently, the EC started to discuss similar changes in the Directive 97/9/EC on the Investor Compensation Schemes (ICSD). In 2009 the Fund expressed several times its view on basic issues, concerning possible changes in the Directive in relation with the information required by the EC.

In 2009 there were no cases of investor compensation payments in Bulgaria. Due to the worsened market conditions, two investment intermediaries voluntarily gave up their licenses. At the end of the year the Fund's Management Board determined a lower payment than the maximum one for the year of 2010, and by that act the MB aimed to alleviate the financial conditions of the investment intermediaries.

## 1. Management

The Fund's management is performed by the Management Board (MB), which consists of a Chairman, Deputy Chairman and three members. As of 31<sup>st</sup> of December 2009 the Fund's MB consists of the following people:

- Mileti Mladenov - Chairman of the MB;
- Irina Martseva - member, appointed by the Association of Banks in Bulgaria (ABB);
- Atanas Boichev - member, appointed by the Bulgarian Association of Licensed Investment Intermediaries (BALII);
- Pavlina Anachkova-Kantareva - member, appointed jointly by the ABB and the BALII.

The three members of the MB were elected in the beginning of 2009 due the expiry of the first mandate of the MB members, by a decision No 150/12.02.2009 of the FSC.

The Chairman of the MB manages the operative activities of the Fund and represents the Fund in the country and abroad. All issues, related to the Fund's activities, were discussed on the MB meetings. In 2009, the MB held 12 meetings, discussed 61 issues and took 40 decisions. On its meetings, the MB mainly discussed issues, related to the current and administrative activities of the Fund, the management of the investment portfolio, and others.

At the beginning of 2009 the Fund's MB presented at the FSC an updated version of the draft Ordinance for the order and means of the compensation payments by the Investor Compensation Fund (ICF). The draft was based on the already developed and presented at the end of 2005 version, as the current changes in the legislation were reflected. The draft ordinance regulates the procedures for compensation payments to the clients of investment intermediaries. The adoption of such an ordinance will provide higher level of readiness in case of eventual compensation payments by the Fund.

An important decision of the Fund's MB in the past year was the decrease of the annual payment of the investment intermediaries for 2010.

At the end of 2009 the Management Board determined the following annual payments for the participants in the scheme for 2010:

- ❖ 0,5% of the total amount of the clients' money, determined on average monthly basis for 2009;
- ❖ 0,05% of the total amount of the rest of the clients' assets, eligible to compensation, determined on average monthly basis for 2009.

The percentage of 0,05% was determined as a half of the maximum possible percentage of 0,1% on the clients' assets, eligible to compensation. The ground for that decision was the worsened financial situation of the investment intermediaries on one hand, and the Fund's desire to contribute to the capital market stability on the other hand.

The Fund's Management Board required from the Financial Supervision Commission (FSC) and the Bulgarian National Bank (BNB) check-ups to some of the scheme participants due to doubts for wrong data on the clients' assets, eligible to compensation, submitted to the Fund and later correction of the annual contribution on that basis.

In 2009 there were no cases requiring compensation payments from the Fund. In the past year, three investment intermediaries gave up their licenses voluntarily and left the capital market.

As a representative of the Fund, the Chairman of the Management Board participated in the Annual meeting of the European Forum of Deposit Insurers (EFDI), where the Fund is an associate member. The main topic of the discussion between the representatives of the European investor compensation schemes in 2009 was the EC intention to make changes in the Investor Compensation Schemes Directive. In this relation the Fund's MB presented a statement on key issues, subject to future changes in the Directive, as well as information on the Fund's activities.

In 2009 the Fund successfully cooperated with the institutions whose activities are related to the capital market, namely – the FSC, BNB, Bulgarian National Audit Office, BSE, ABB, BALII, Bulgarian Association of Asset Management Companies (BAAMC), as well with ICS participants. In order to establish better cooperation with the BNB at the end of 2009 the Fund's MB discussed and adopted agreement for cooperation between the ICF and the Banking Supervision Department at the BNB. It is envisaged the draft agreement to be agreed and signed soon.



## 2. Legal Framework

The Directive 97/9/EC is the main legal act that regulates the activities of the investor compensation schemes on a European level. Each country should harmonize its national legislation with the provisions of the Directive. In Bulgaria, the Directive is transposed in Chapter IV in the Law on Public Offering of Securities (LPOS). Amendments in the Directive are expected to be undertaken for the first time after its adoption in 1997.

In 2009 changes in some of the Fund's internal rules were made as well as some proposals for changes in the LPOS. The FSC Ordinance № 38 on the requirements to activities of the investment intermediaries was changed in the part that regulates the relations between the client and the investment intermediary after the expiry of the contract concluded between them. Those changes were initiated by the BALII and BAAMC and gave the investment intermediaries possibility to transfer the financial instruments of their clients, with which they did not have contract agreements to personal accounts in the Central Depository. In this way, the basis for calculation of the annual contribution of the scheme participants was decreased on the one hand, and on the other hand, the risk for the securities' administration would be held only by the Central Depository.

The current activity of the Fund, which is managed by the Chairman of the MB, is in accordance with the legal requirements and the internal rules.

## 3. Fund's Activities

In the conditions of a global financial crisis, the Fund's activities are directed to the maintenance of stability on the capital market. The main purpose of the Fund is to guarantee security to the investors in financial instruments by paying out their compensation claims brought against the Fund in accordance with the legal requirements. The Fund has two priorities and they are: 1) to pay out compensation to the clients of the investment intermediaries that are not able to pay back the due amounts, and 2) to collect contributions from the participants in the investor compensation scheme in order to generate sufficient funds necessary for compensation payments. For the realization of those priorities a legal and administrative basis exists, which regulates the rights and obligations of the participants in the Fund.

### **3.2 Requirements to the Participants in the Fund**

In accordance with Art. 77a, para 3 in the LPOS each investment intermediary that holds, administers and manages clients' money and financial instruments is obliged to participate in the Fund and to make money contributions. In order to initiate its participation in the scheme the investment intermediary should pay an entrance fee, which is 1% of the amount of its minimum required capital. Only asset management companies do not pay entrance payments.

Investment intermediaries pay annual contributions to the Fund, which are calculated on the basis of the average amount of clients' assets, eligible to compensation. The annual contributions are paid in four equal installments within a 30-day period after the end of each quarter. In case of contribution payments after the legally determined deadline, the investment intermediaries are charged an interest for the period of the delay at the legal interest rate. Due to the crisis situation, there was a prolongation in the delays in 2009. In the past year, all participants in the scheme paid their contributions that were due to the Fund. The accumulated interest for a delay was 968 BGN.

The participants in the investor compensation scheme are obliged to submit in time the information on clients' assets, held by them in accordance with Art. 77m, para 11 of the LPOS. Since 2008, an on-line system for submitting electronically signed documents has been functioning in the Fund and thus, the process of submitting the required information from the investment intermediaries was facilitated. In case the investment intermediaries do not perform their obligations on time for paying the due contributions, submitting the required information, etc. the Fund informs the respective regulatory bodies, which are authorized to undertake further steps against the investment intermediaries.

In 2009 the Fund informed the regulatory bodies (the FSC and the BNB) for the investment intermediaries that did not perform their duties within the deadlines defined in the law as well as for those investment intermediaries, which were suspected in submitting wrong data.

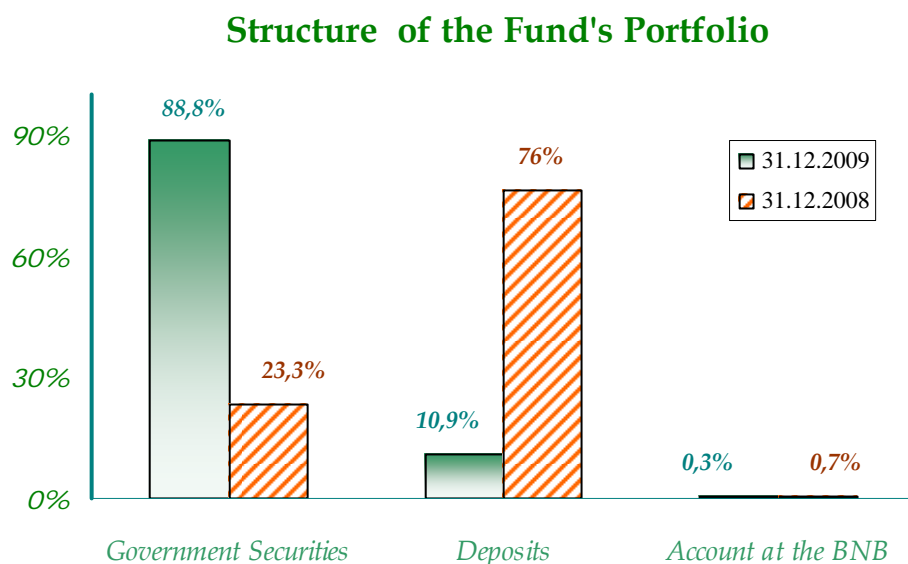
### 3.2 Investment Activities of the Fund

In 2009 the Management Board of the Fund made changes in the Investment Policy of the Fund in compliance with the situation on the capital market. Those changes aimed at optimizing the management of the Fund's portfolio.

As of 31<sup>st</sup> of December 2009 the funds accumulated by the Fund amounted to 6,88 million BGN. According to Art. 77p, para 2 of the LPOS the Fund should invest the accumulated funds in financial instruments, issued or guaranteed by the Bulgarian government, short-term deposits in banks and deposits in BNB.

Figure № 1 shows the structure of the Fund's portfolio.

*Fig. № 1*

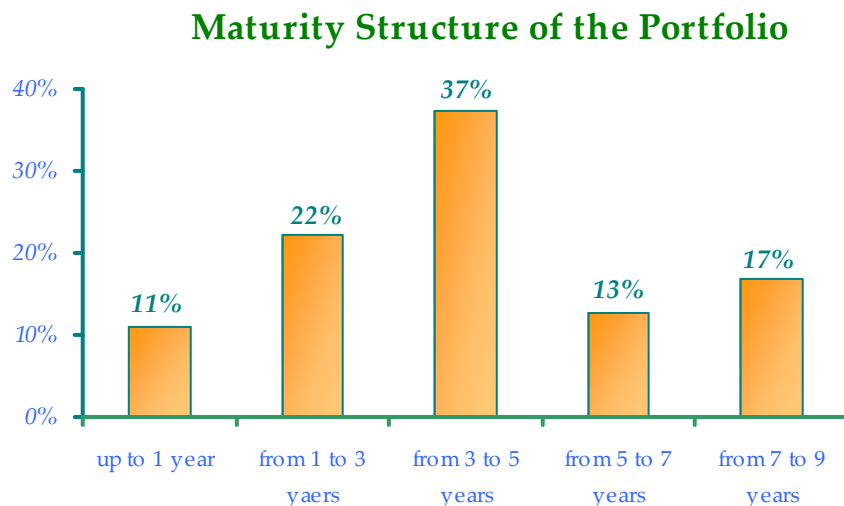


*Source: ICF*

As of the end of 2009 the funds accumulated by the Fund were invested in government securities (GS) and short-term deposits distributed in several banks. The investments are made in accordance with the Fund's Investment Policy adopted by the MB.

Figure № 2 shows the maturity structure of the investments, which is in accordance with the requirements set in the Fund's Investment Policy.

Fig. No 2



*Source: ICF*

In 2009 the participants in the ICF paid 2,27 mln. BGN as annual contributions to the Fund. The revenues from entrance contributions in 2009 were 2 500 BGN, which were paid by one newly licensed investment intermediary.

In 2009 the Fund reported revenues from investment for 609 thousand BGN. In 2009 the realized economy comes to 11,63% of the approved budget for administrative expenditures of the Fund for 2009, adopted by the MB of the Fund and the FSC.

### 3.3 Participants

As of 31<sup>st</sup> of December 2009 the participants in the Fund are 124 of which 61 are non bank investment intermediaries, 23 are commercial banks and 40 – asset management companies. /see Appendix No 3/.

The year of 2009 was a hard one for the investment intermediaries. The weak trade on the Bulgarian Stock Exchange (BSE) forced some of the investment intermediaries to leave the capital market and others confronted difficulties and delayed their payments to the Fund. At the end of 2009 the FSC took the licenses of the following investment intermediaries on their own request: “Bora Invest” AD, “KD Securities” EAD and “DZI Invest” AD. In the past year, one newly licensed investment intermediary started participating in the scheme – “Tradevil” EAD.

Table No 2 shows the distribution of the investment intermediaries by their minimum required capital.<sup>4</sup>

Table No 2 Distribution of the Investment Intermediaries by their Minimum Required Capital as of 31<sup>st</sup> of December 2009

	1 500 000 BGN	250 000 BGN	100 000 BGN
As of 31 <sup>st</sup> of December 2008	24	39	-
As of 31 <sup>st</sup> of December 2009	23	38	-

Source: ICF

### 3.4. Clients' Assets, Eligible to Compensation

The limit of compensation for 2009 was 90% of the total amount of clients' assets but not more than 30 000 BGN.

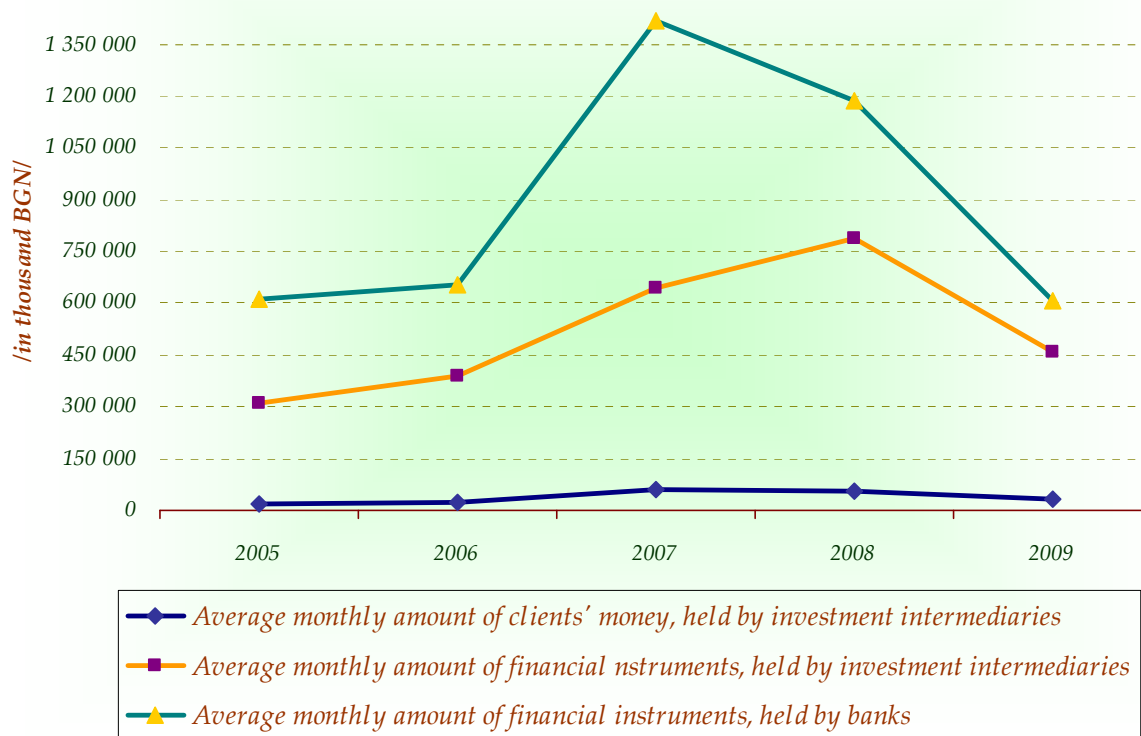
Due to the global financial crisis, the average monthly amount of the protected clients' assets lost more than 50% of their value compared to the year of 2008.

Figure No 3 shows the monthly average annualized amounts of the financial instruments and clients' money held by the investment intermediaries and the commercial banks by years from the establishment of the Fund to the end of 2009. The monthly average amounts of the protected clients' assets in 2009 reached its level from 2006. In 2009, the amounts of the protected assets held by the banks and by the investment intermediaries were the closest for the last five years and they were almost equal.

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<sup>4</sup> The type of the license of the investment intermediary as well as the scope of the investment services that the investment intermediary is allowed to provide depends on the minimum required capital.

Fig. No 3

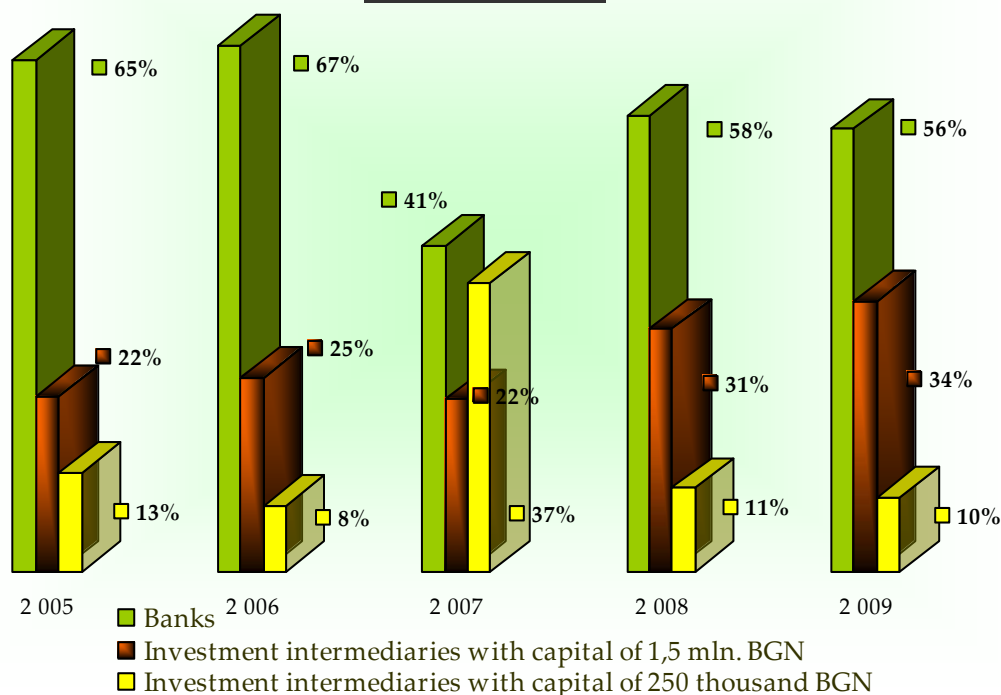
Amount of Clients' Assets, Eligible to Compensation

Source: ICF

Figure No 4 shows clients' assets, eligible to compensation by types of investment intermediaries and by years. It is observed that in 2005 and 2006 the share of the assets, held by the banks was over 65%, while in 2009 the percentages of the banks and the investment intermediaries were almost equal.

Fig. No 4

Distribution of Clients' Assets, Eligible to  
Compensation by Types of Investment  
Intermediaries

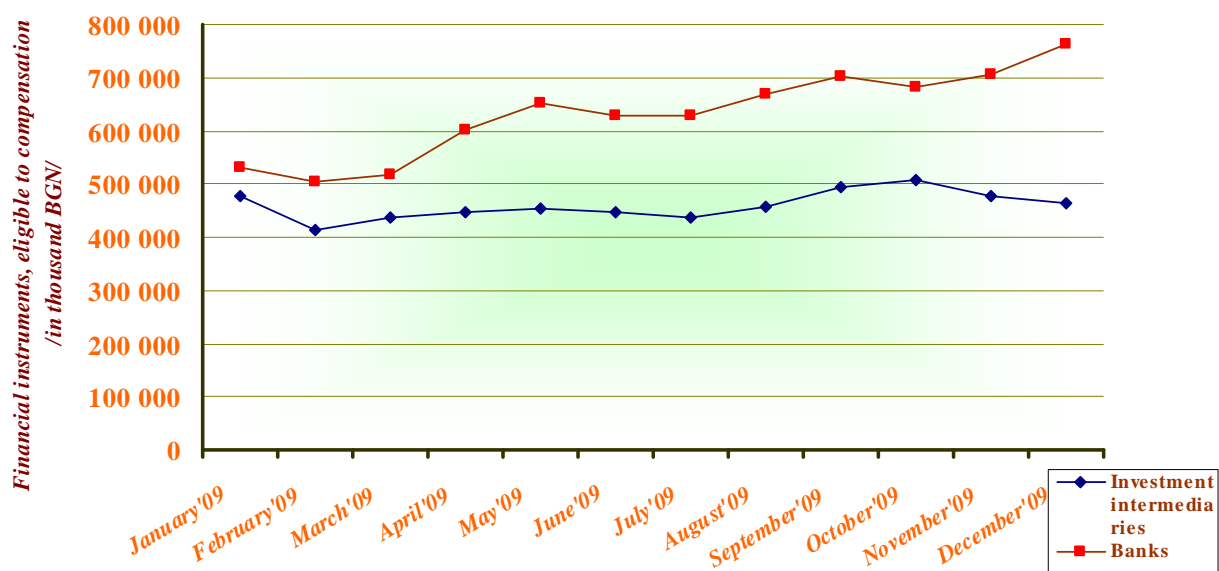


Source: ICF

The monthly average amount of the financial instruments in 2009 came to 1,073 billion BGN. A steady increase in the financial instruments, eligible to compensation, held by the commercial banks, was observed during 2009. For comparison, rather uniform change was observed regarding investment intermediaries with slightly average increase in the last 4-5 months of the year. /Figure No 5/.

Fig. No 5

*Clients' Financial Instruments, eligible to Compensation, held by Investment Intermediaries and Banks*

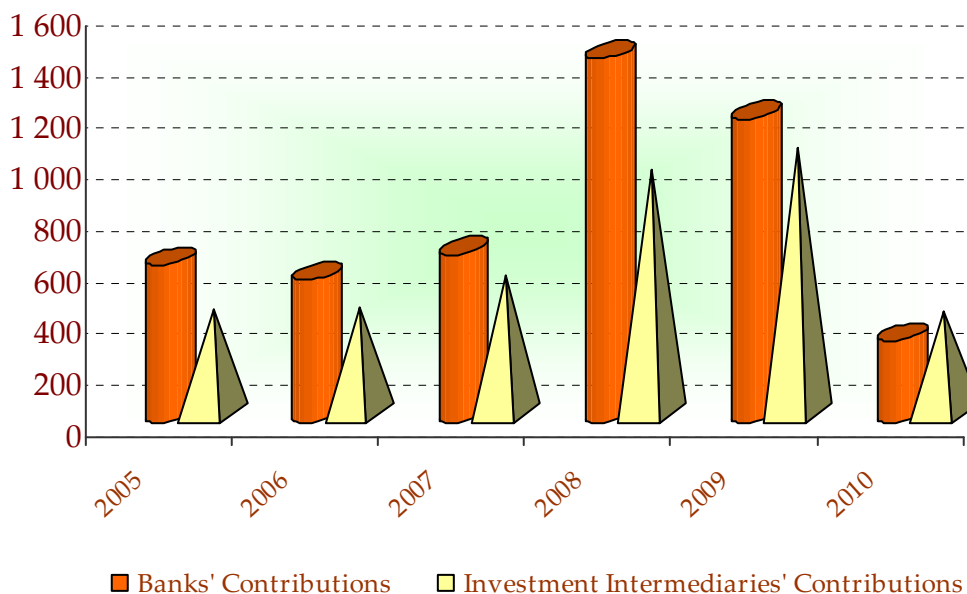


Source: ICF

The amount of the annual contribution to the Fund depends on the clients' assets, eligible to compensation, and on the size of the contribution. The discussion on the choice of a basis has been raised several times not only in Bulgaria, but also in the EU. The type of the basis is related to the principles of justice and distribution of contributions among the participants in the investor compensation scheme.

Figure No 6 shows the distribution of contributions paid by the participants in the Fund since its establishment. It can be seen from the Figure that in 2010 less revenues from annual contributions are going to be expected. This is due to the drop in the value of the clients' assets, eligible to compensation in 2009, which serve as a basis for the calculation of the annual contribution for 2010, as well as due to the decrease in the percentage of the annual contribution applied to the financial instruments. For a comparison, the highest revenues from the annual contributions were collected in 2008.



Fig. No 6Distribution of contributions of investment intermediaries by years /in thousand BGN/

\* By preliminary data.

Source: ICF

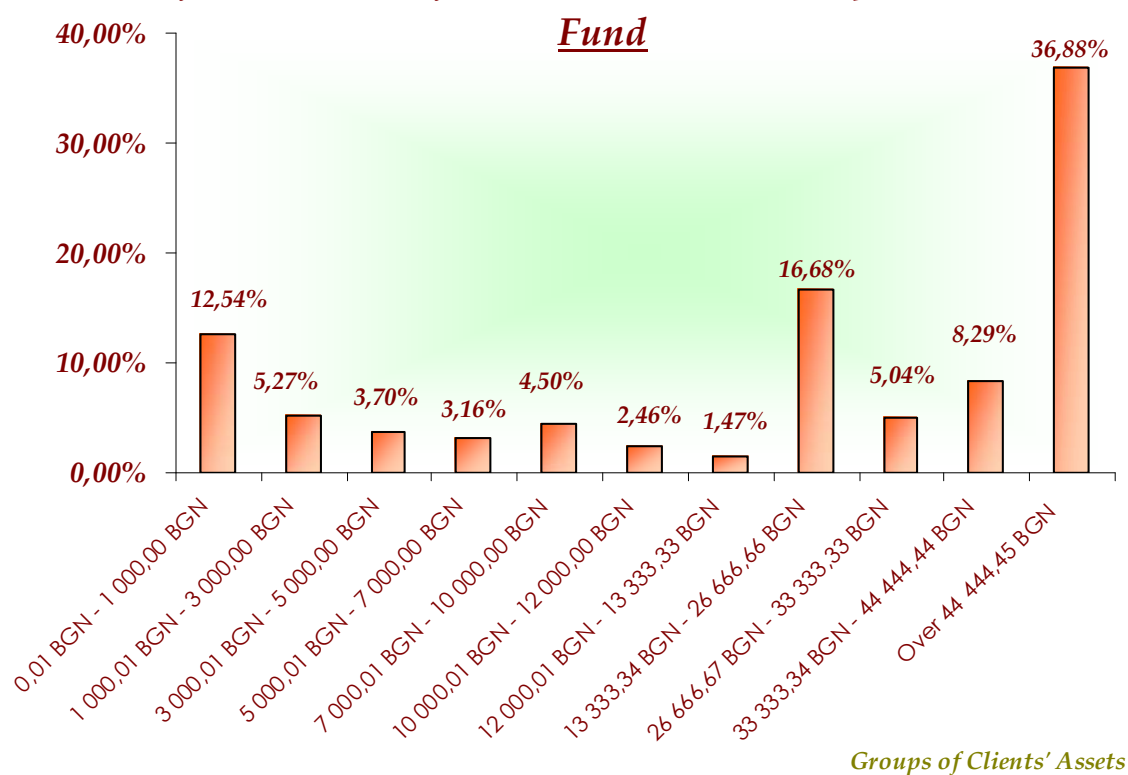
As of 31<sup>st</sup> of December 2009 the amount of the protected clients' assets came to 1,22 billion BGN, compared to 1,21 billion BGN as of 31<sup>st</sup> of December 2008 and the number of clients, eligible to compensation was 58 957 at the end of 2009 compared to 53 048 as of 31<sup>st</sup> of December 2008. The relative share of the accumulated funds to the amount of clients' assets, eligible to compensation, is 0,56%<sup>5</sup>. There is an increase on an annual basis in the number of investors, eligible to compensation by 11,14 % compared to 2008. *Annex No 1* shows the distribution of clients to the investment intermediaries, eligible to compensation by types of investment intermediaries and by groups of clients' assets.

<sup>5</sup> According to Art. 77s, para 1 in the LPOS, when the funds, accumulated by the Fund, exceed 5% of the total amount of clients' assets, eligible to compensation, the payment of the annual contributions should be ceased.

The Fund's staff regularly analyses the information, submitted by the investment intermediaries, and calculates the Fund's exposure in the case of eventual activation of the scheme. The clients' assets, eligible to compensation, held by each investment intermediary have been currently observed. Two times in the year, the maximum level of compensation that should be paid by the Fund in case of activation of the scheme has been calculated.<sup>6</sup> Figure No 7 shows the distribution of the maximum compensation, that should be paid by the Fund, calculated on the basis of the number of clients by groups of clients' assets.

**Fig. No 7**

**Compensation Payments, Calculated on the Basis  
of the Number of Clients at Each Participant in the**



Source: ICF

<sup>6</sup> At the end of each semester the participants in the Fund submit information on the number of clients, eligible to compensation by groups of clients' assets.

The biggest share of the possible compensation claims, that would be paid by the Fund, belonged to the group of clients' assets at the range of the amount over 44 444,44 BGN /36,88%/, followed by the range of clients' assets at the amount between 13 333,34 BGN and 26 666,66 BGN /16,68%/, and the group of the retail clients - up to 1 000 BGN /12,54%/.

The number of retail clients /69% according to the *Annex No 1/* is prevailing, which is typical for investors. On the other hand, the number of the clients in the group with the biggest amount of clients' assets was 4,6% of the total amount of the protected assets /*Annex No 1/*. This is an evidence for the big share of compensations, which would be paid to that group, i.e. the total amount of compensation payments is influenced to a great degree by the number of clients that hold assets at the amounts over the compensation limit and who, respectively, would receive the maximum compensation by the Fund.

Taking into consideration the type of investment intermediaries, the Fund would pay the highest compensation to the clients of the investment intermediaries with a minimum required capital of 1,5 mln. BGN, followed by the commercial banks and investment intermediaries with a minimum required capital of 250 thousand BGN /see *Annex No 1/*. The calculated amounts were the maximum amounts, i.e. the calculations led to an increase in the real amount of compensation payments, which the Fund would pay out. The calculated amounts are increased, as the Fund does not get information on each client's assets, but only on the number of clients in each of the eleven groups of clients' assets, eligible to compensation. It is assumed that each client holds assets at the highest amount in each range, where the client falls in. The assumption for compensation payments to clients of the investment intermediaries in a certain group are only theoretical in order to be determined the distribution of clients' assets, eligible to compensation.

*Table No 2* shows the distribution of the Fund's participants according to the amount of compensation that the Fund would pay out to their clients taken separately.

**Table № 2 Distribution of the ICS Participants according to the Amount of Compensation that the Fund would Pay out to their Clients**

<b>The Amount of Compensation that the Fund would Pay out to the Clients of Each Participant, Taken Separately</b>	<b>Number of Participants in the Fund</b> <i>/as of 31<sup>st</sup> of December 2009/</i>	<b>Percentage of the Distribution of the Amount of Compensation by Groups against the Total Number of Investment Intermediaries</b>
<i>Up to 500 000 BGN</i>	<b>19</b>	<b>24,05%</b>
<i>From 500 000,01 BGN up to 1 mln. BGN</i>	<b>13</b>	<b>16,46%</b>
<i>From 1000 000,01 BGN up to 2 mln. BGN</i>	<b>12</b>	<b>15,19%</b>
<i>From 2 000 000,01 BGN up to 3 mln. BGN</i>	<b>8</b>	<b>10,13%</b>
<i>From 3 000 000,01 BGN up to 4 mln. BGN</i>	<b>9</b>	<b>11,39%</b>
<i>From 4 000 000,01 BGN up to 7 mln. BGN</i>	<b>9</b>	<b>11,39%</b>
<i>Over 7 mln. BGN</i>	<b>9</b>	<b>11,39%</b>

*Source: ICF*

The majority of the investment intermediaries fall within the interval up to 500 000 BGN /24,05%/ , followed by the investment intermediaries that fall within the interval up to 1 mln. BGN /16,46%/ . The resources at Fund's disposal /6,88 mln. BGN/ would be enough for paying out possible compensation simultaneously to the clients of some smaller investment intermediaries as well as to each separate investment intermediary, except nine of the scheme participants. For each of those nine investment intermediaries the compensation payments are over 7 mln. BGN and the available resources in the Fund would not be enough. In case of compensation payments for those investment intermediaries, it is possible additional resources to be collected, as it is set in the provisions of Art. 77r of the LPOS.

The calculated maximum amount of the protected clients' assets came to 293,85 mln. BGN, which was 24% of all clients' assets, eligible to compensation.

It is considered that the possibility for a misuse with the clients' money is higher compared with financial instruments. For that reason, the compensation payments on the clients' money would be more probable.

Table № 3 shows the distribution of investment intermediaries by the clients' money, eligible to compensation, held by them.

Table № 3 Distribution of the Investment Intermediaries according to the Amount of Clients' Money, Eligible to Compensation

Amount of Clients' Money	Number of Investment Intermediaries as of 31 <sup>st</sup> of December 2009	Percentage in the Total Number (%)
<i>Up to 100 000 BGN</i>	<b>38</b>	<b>62%</b>
<i>From 100 000,01 BGN up to 200 000 BGN</i>	<b>5</b>	<b>8%</b>
<i>From 200 000,01 BGN up to 400 000 BGN</i>	<b>4</b>	<b>7%</b>
<i>From 400 000,01 BGN up to 600 000 BGN</i>	<b>3</b>	<b>5%</b>
<i>From 600 000,01 BGN up to 1 000 000 BGN</i>	<b>5</b>	<b>8%</b>
<i>From 1 000 000,01 BGN up to 3 000 000 BGN</i>	<b>2</b>	<b>3%</b>
<i>From 3 000 000,01 BGN up to 7 000 000 BGN</i>	<b>3</b>	<b>5%</b>
<i>From 7 000 000,01 BGN up to 10 000 000 BGN</i>	<b>1</b>	<b>2%</b>
<b>Total:</b>	<b>61</b>	<b>100%</b>

Source: ICF

The majority of the investment intermediaries /62%/ hold small amounts of clients' money /up to 100 thousand BGN/. Only 6 investment intermediaries hold clients' money over 1 mln. BGN. The accumulated resources in the Fund are enough for paying out compensation for the clients' money held by any of the investment intermediaries, taken separately, or for some of the participants in the scheme, grouped respectively up to the available resources in the Fund, except for one investment intermediary, where the amount of clients' money came to 9,5 mln. BGN. The total amount of clients' money, held by the investment intermediaries, came to 33,6 mln. BGN. They were 2,7% of the total amount of clients' assets, eligible to compensation.

The analysis of the clients' assets that are not eligible to compensation as of 31<sup>st</sup> of December 2009 showed that 7,9 billion BGN were held by the banks and about 3 billion BGN were held by the non bank investment intermediaries. In other words, the total amount of financial instruments, managed by the banks and non-bank investment intermediaries, was about 10,9 billion BGN. For comparison, the capitalization of the Bulgarian Stock Exchange was 10,2 billion BGN as of 31<sup>st</sup> of December 2009.\*

*Annex No 2* shows the stock exchange capitalization in 2008 and 2009 and the financial instruments, eligible to compensation in the respective years. The share of the financial instruments, eligible to compensation, compared to the amount of the stock exchange capitalization was small - it varied between 9,99 and 12,21%.

The aim of the investor compensation schemes is to protect the small investors. Professional investors are excluded from the scope of the scheme, which explains to some extent the small share of the clients' assets, eligible to compensation.

### 3.5. Staff

The Fund's activities are performed by five employees on a labor contract, managed by the Chairman of the Fund's MB. The staff duties are described in the internal rules of the Fund and they comply with the labor legislation in Bulgaria. The Chairman employs and dismisses the staff and is responsible for the performance of their tasks. At the end of 2009, there are four employees on a labor contract in the Fund.

The Fund's staff has the possibility to improve its qualification by attending courses, seminars, conferences and working meetings, related to their work in the Fund. The existing professional environment in the Fund contributes to the effective development of human resources.

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\* The difference is probably due to clients' assets, traded outside the BSE.

### **3.6. International Cooperation**

The international cooperation with other investor compensation schemes is very important for the Fund, as it is an organization, working on a national level. The majority of contacts with other investor compensation scheme representatives are due to the Fund's membership in the European Forum of Deposit Insurers (EFDI). In 2009, the Fund's representatives participated in the EFDI Annual meeting and in a working meeting of the investor compensation schemes, which was also organized by EFDI. For the first time EFDI organized a meeting, which was especially dedicated to the investor compensation schemes. Issues, related to the EC proposals for changes in the Directive and to concrete peculiarities in the investor compensation scheme activities, were discussed during the meeting.

The EC sent several questionnaires to all EU schemes, aiming at collecting information and views on eventual changes in the Directive. The ideas of the European Commission were discussed among the investor compensation schemes, but at the end of 2009, changes in the Directive had not been made yet.

Contacts with the Romanian, Hungarian and Polish investor compensation schemes continued in 2009, with which the Fund had concluded bilateral agreements. Relations with the Czech and the Greek investor compensation schemes were also established.

The international relations of the Fund contribute to adopting the best practices in the field of investor compensation.

#### **4. Fund's Activities in 2010**

In 2009, the global financial crisis affected all sectors of the Bulgarian economy. The participants on the capital market in Bulgaria faced a situation, where they had to reform their activities by extending the scope of provided services or by restructuring their activities. In realizing both options, it was important to keep the investors' credibility in the stability and transparency of the Bulgarian capital market, as well as in the services, provided by its participant. Some investment intermediaries extended their activities on the territory of other European countries by establishing branches there, while others started trading on foreign stock exchanges using foreign financial intermediation. For that reason, one of the aims of the Fund in 2010 is the establishment of cooperation with the investor compensation schemes in the countries, where branches of Bulgarian investment intermediaries are established.

The Fund is going to direct its efforts to improving the analytical activities and the control of the information, that is submitted by the participants in the scheme. In 2010, as it is up to now, the Fund is going to work in close cooperation with the regulatory bodies and professional organizations on the capital market in order to achieve optimum results in the control and quality of the provided investment services.

In 2010, the Fund is going to contribute to the effective maintenance of the capital market stability and to conform to the legal requirements for its activities.



**Distribution of the Number of Clients and Possible Compensation Payments by Groups of Clients' Assets**  
**as of 31<sup>st</sup> of December 2009**

GROUPS OF CLIENTS' ASSETS	Number of Clients of Investment Intermediaries with a Minimum Required Capital of 250 thousand BGN		Possible Compensation Payments to Investment Intermediaries with a Minimum Required Capital of 250 thousand BGN		Number of Clients of Investment Intermediaries with a Minimum Required Capital of 1,5 mln. BGN		Possible Compensation Payments to Investment Intermediaries with a Minimum Required Capital of 1,5 mln. BGN		Number of Clients of Commercial Banks – Investment Intermediaries		Possible Compensation Payments to Commercial Banks – Investment Intermediaries		Total Amount of the Possible Compensation Payments by Groups of Clients' Assets
From 0,01 BGN up to 1000,00 BGN	8 535	78.19%	7 682	19.20%	23 234	67.55%	20 911	12.17%	9 200	67.42%	8 280	10.08%	36 872
From 1000,01 BGN up to 3000,00 BGN	750	6.87%	2 025	5.06%	3 629	10.55%	9 798	5.70%	1 360	9.97%	3 672	4.47%	15 495
From 3000,01 BGN up to 5000,00 BGN	343	3.14%	1 544	3.86%	1 546	4.49%	6 957	4.05%	530	3.88%	2 385	2.90%	10 886
From 5000,01 BGN up to 7000,00 BGN	222	2.03%	1 399	3.50%	962	2.80%	6 061	3.53%	290	2.13%	1 827	2.22%	9 287
From 7000,01 BGN up to 10000,00 BGN	206	1.89%	1 854	4.63%	934	2.72%	8 406	4.89%	331	2.43%	2 979	3.63%	13 239
From 10000,01 BGN up to 12000,00 BGN	86	0.79%	929	2.32%	444	1.29%	4 795	2.79%	140	1.03%	1 512	1.84%	7 236
From 12000,01 BGN up to 13333,33 BGN	49	0.45%	588	1.47%	237	0.69%	2 844	1.66%	74	0.54%	888	1.08%	4 320
From 13333,34 BGN up to 26 666,66 BGN	268	2.46%	6 432	16.08%	1 334	3.88%	32 016	18.63%	441	3.23%	10 584	12.89%	49 032
From 26 666,67 BGN up to 33 333,33 BGN	73	0.67%	2 190	5.47%	305	0.89%	9 150	5.33%	116	0.85%	3 480	4.24%	14 820
From 33 333,34 BGN up to 44 444,44 BGN	86	0.79%	3 440	8.60%	376	1.09%	15 040	8.75%	147	1.08%	5 880	7.16%	24 360
Over 44 444,45 BGN	298	2.73%	11 920	29.80%	1 396	4.06%	55 840	32.50%	1016	7.45%	40 640	49.48%	108 400
<b>Total</b>	<b>10 916</b>	<b>100%</b>	<b>40 002</b>	<b>100%</b>	<b>34 397</b>	<b>100%</b>	<b>171 818</b>	<b>100%</b>	<b>13 645</b>	<b>100.00%</b>	<b>82 127</b>	<b>100%</b>	<b>293 947</b>

*Source: ICF*

Stock Exchange Capitalization and Financial Instruments, Eligible to Compensation

year month	2009			2009								2008	
	Stock Exchange Capitalization	Stock Exchange Capitalization	Changes in the Stock Exchange Capitalization in 2009 Compared to 2008	Financial Instruments, Eligible to Compensation at Investments Intermediaries with Minimum Required Capital of 1,5 mln. BGN		Financial Instruments, Eligible to Compensation at Investments Intermediaries with Minimum Required Capital of 250 thousand BGN		Financial Instruments, Eligible to Compensation at Commercial Banks		Financial Instruments, Eligible to Compensation, Total for All Investment Intermediaries		Financial Instruments, Eligible to Compensation, Total for All Investment Intermediaries	
	Amounts in thousand BGN	Amounts in thousand BGN	in %	Amounts in thousand BGN	Share in the Stock Exchange Capitalization as %	Amounts in thousand BGN	Share in the Stock Exchange Capitalization as %	Amounts in thousand BGN	Share in the Stock Exchange Capitalization as %	Amounts in thousand BGN	Share in the Stock Exchange Capitalization as %	Amounts in thousand BGN	Share in the Stock Exchange Capitalization as %
	(1)	(2)	(3) = [(1) -(2)]/(2)	(4)	(5) = (4)/(1)	(6)	(7) = (6)/(1)	(8)	(9) = (8)/(1)	(10) = (4)+(6)+(8)	(11) = (10)/(1)	(12)	(13) = (12)/(2)
January	10 066 712	24 212 741	-58%	373 135	3.71%	99 879	0.99%	532 382	5.29%	1 005 396	9.99%	2 238 422	9.24%
February	7 875 008	25 516 866	-69%	318 716	4.05%	91 973	1.17%	505 314	6.42%	916 003	11.63%	2 421 418	9.49%
March	8 427 668	23 249 191	-64%	339 593	4.03%	94 598	1.12%	516 788	6.13%	950 980	11.28%	2 123 399	9.13%
April	9 544 793	22 310 710	-57%	349 407	3.66%	94 095	0.99%	601 551	6.30%	1 045 053	10.95%	2 025 789	9.08%
May	9 700 744	22 447 399	-57%	348 202	3.59%	105 496	1.09%	652 775	6.73%	1 106 473	11.41%	2 187 676	9.75%
June	9 228 226	19 133 111	-52%	346 010	3.75%	101 125	1.10%	628 973	6.82%	1 076 107	11.66%	2 241 296	11.71%
July	8 728 530	16 902 449	-48%	338 828	3.88%	98 418	1.13%	628 137	7.20%	1 065 382	12.21%	2 031 828	12.02%
August	9 956 549	17 095 998	-42%	353 444	3.55%	104 454	1.05%	669 484	6.72%	1 127 381	11.32%	2 280 389	13.34%
September	10 582 585	13 623 807	-22%	384 493	3.63%	110 758	1.05%	702 590	6.64%	1 197 840	11.32%	2 049 511	15.04%
October	10 011 721	11 321 994	-12%	391 867	3.91%	117 505	1.17%	680 726	6.80%	1 190 098	11.89%	1 461 610	12.91%
November	9 724 485	10 848 466	-10%	375 016	3.86%	103 687	1.07%	704 676	7.25%	1 183 380	12.17%	1 269 694	11.70%
December	10 161 275	10 791 086	-6%	370 429	3.65%	106 960	1.05%	763 514	7.51%	1 240 903	12.21%	1 158 503	10.74%

## List of Fund's Participants as of 31<sup>st</sup> of December 2009

### II with Minimum Required Capital of 250 thousand BGN

1. ABC Finance EAD
2. ABV - Investments LTD
3. Adamant Capital Partners AD
4. Argo - Invest AD
5. Astra Investment AD
6. Aval In AD
7. Balkan Consulting Company EAD
8. Balkan Investment Company AD
9. BBG Simex - Bulgaria LTD
10. BG Proinvest AD
11. Balkan Securities LTD
12. Bulex Invest AD
13. Bulfin Invest AD
14. Capital Finance LTD
15. Capital Markets AD
16. D.I.S.L. Securities AD
17. Dealing Financial Company AD
18. Eurodealing AD
19. Favorit AD
20. Fiko Invest LTD
21. Focal Point Investment AD
22. Global Markets LTD
23. Intercapital Markket AD
24. KM Invets AD
25. Lider Invest LTD
26. Makler - 2002 AD
27. Naba Invest AD
28. Positiva AD
29. Populyarna Kasa - 95 AD
30. Real Finance AD
31. Rock Ridge Investment EAD
32. SII Securities AD
33. Sofia Invest Brokerage AD
34. Standard Inverstment AD
35. Tradevil EAD
36. Varchev Finance LTD
37. Varna Investment Intermediary AD
38. Zlaten Lev Brokers LTD

### II with Minimum Required Capital of 1,5 mln. BGN

1. BenchMark Finance AD
2. Beta Corp AD
3. Bulbrokers AD
4. Bul Trend Brokerage LTD
5. Capital Ingeneer Project LTD
6. Capital Invest AD
7. Delta Stock AD
8. Elana Tradiing AD
9. Euro-Finance AD
10. EFG Securities AD
11. Faktori AD
12. Fina-C AD
13. First Financial Brokerage House LTD
14. FK Ever AD
15. Kapman AD
16. Karol AD
17. Makkap Brokers AD
18. Sofia International Securities AD
19. Somoni Financial Brokerage LTD
20. Status Invest AD
21. TBI Invest EAD
22. Ug Market AD
23. Zagora Finacorp AD

## List of Fund's Participants as of 31<sup>st</sup> of December 2009

### Commercial Banks - Investment Intermediaries

1. DSK Bank AD
2. Allianz Bank Bulgaria AD
3. Bulgarian Development Bank AD
4. Bulgarian-American Credit Bank AD
5. Central Cooperative Bank AD
6. CIBANK PLC
7. Citibank N.A. - Sofia Branch
8. Corporate Commercial Bank AD
9. D Commerce Bank AD
10. Emporiki Bank- Bulgaria EAD
11. Eurobank EFG Bulgaria AD
12. First Investment Bank AD
13. International Asset Bank AD
14. Investbank AD
15. MKB Unionbank AD
16. Municipal Bank AD
17. Piraeus Bank Bulgaria AD
18. Raiffeisenbank (Bulgaria) EAD
19. Societe Generale Expressbank AD
20. Texim Private Entrepreneurial Bank AD
21. Tokuda Bank AD
22. UniCredit Bulbank AD
23. United Bulgarian Bank AD

### Asset Management Companies

1. Adamant Capital Management EAD
2. Aktiva Asset Management AD
3. Alpha Asset Management EAD
4. Astra Asset Management AD
5. Aurora Capital AD
6. Balkan Capital Management AD
7. BenchMark Asset Management AD
8. Buldev Asset Management AD
9. Capital Markets Asset Management AD
10. Capman Asset Management AD
11. CCB Asset Management AD
12. DSK Asset Management AD
13. Ekspat Asset Management AD
14. Elana Asset Management AD
15. Ever Asset Management AD
16. First Financial Brokerage House Asset Management AD
17. Invest Fund Asset Management AD
18. Karol Capital Management AD
19. KD Investments EAD
20. KTB Asset Management AD
21. Municipal Bank Asset Management EAD
22. Neway Asset Management AD
23. Optima Asset Management AD
24. Overon Finance AD
25. Raiffeisen Asset Management (Bulgaria) EAD
26. Real Finance Asset Management AD
27. Saedinie Asset Management AD
28. Sentinel Asset Management AD
29. Sinergon Asset Management AD
30. Somoni Asset Management AD
31. Standard Asset Management AD
32. Status Capital AD
33. TBI Asset Management EAD
34. Titan Asset Management AD
35. UBB Asset Management AD
36. Ug Market Fund Management AD
37. Ultima Capital Management AD
38. Varchev Management Company AD
39. Zagora Finacorp Asset Management AD
40. Zlaten Lev Capital Asset Management AD