

# INVESTOR COMPENSATION FUND

ANNUAL REPORT

2013

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## ABBREVIATIONS:

**ABB** – Association of Banks in Bulgaria;

**AMC** – Asset Management Companies;

**BAAMC** – Bulgarian Association of Asset Management Companies;

**BALII** – Bulgarian Association of Licensed Investment Intermediaries;

**B-II** – Banks-investment Intermediaries;

**BNAO** – Bulgarian National Audit Office;

**BNB** – Bulgarian National Bank;

**BSE** – Bulgarian Stock Exchange;

**CA** – Current Account;

**CB** – Commercial Banks;

**CF** – Clients' funds;

**DIF** – Deposit Insurance Fund;

**EC** – European Commission;

**EEA** – European Economic Area;

**EFDI** – European Forum of Deposit Insurers;

**EU** – European Union;

**FI** – Financial Instruments;

**FSC** – Financial Supervision Commission;

**GS** – Government Securities;

**ICF** – Investor Compensation Fund;

**II** – Investment Intermediaries;

**LMFI** – Law on Markets in Financial Instruments;

**LPOS** – Law on Public Offering of Securities;

**MB** – Management Board;

**MoF** – Ministry of Finance;

**ROOICF** – Regulation of Operation and Organization of the Investor Compensation Fund.



## 1. MANAGEMENT

The Investor Compensation Fund (ICF) is a part of the financial safety net and it is created to protect investors' assets up to a certain amount in cases of insolvency of the investment intermediary with which the clients have established contractual relations. The Fund is created in 2005 as its statute is defined by the LPOS.

When performing its functions the Fund collects annual installments by the investment intermediaries and invests them in accordance with certain requirements for liquidity and security in order to guarantee eventual compensation payments.

For the realization of those functions the Fund is managed by a Management Board (MB) that in 2013 consisted of:

- Mileti Mladenov – Chairman
- Teodora Drenska – Deputy Chairperson
- Irina Martseva - Member
- Atanas Boichev - Member
- Pavlina Anatchkova-Kantareva - Member

The Management Board discusses and takes decisions on all issues related to the Fund's activities, adopts and implements the internal legal acts of the organization.

The Chairman of the MB manages the operational activities of the Fund, performed by its administration which consists of four people as 31<sup>st</sup> of December 2013.

In 2013, 11 meetings of the MB were held where 67 issues were discussed and 30 decisions were taken.

In 2013 there were no cases of compensations payments. The Fund's activities were mainly concentrated on collecting the contributions due by the investment intermediaries, investment of the Fund's resources, adoption of the changes in the IT database and the implementation of the new report on the number of clients, collection and analyses of the data on clients' assets, estimation of the Fund's exposure, etc.

In 2013 the MB decided to keep the size of the annual contribution for 2014 at the level since the last four years as it was equal to 0,5% of the amount of clients' funds and 0,05% of the total amount of the rest of the clients' assets for 2013 calculated on average annual basis.



# Annual Report for 2013

In 2013 the MB initiated a meeting between representatives of the investment community and the Fund where issues related mainly with contracts for differences and their reporting by the Fund were discussed.

In 2013 the activities of the Fund were in compliance with the requirements of the national legislation and the internal rules, namely LPOS, LMFI, Regulation of Operation and Organization of the Investor Compensation Fund, Ordinances № 23 and 46 of FSC.

In 2013 the Fund's MB made proposals to the FSC for changes in several legal acts affecting the Fund's activities (ROOICF and Ordinance №46), that are expected to be adopted in 2014.

The cooperation with national institutions and organizations as FSC, BNB, MF, ABB, BALII, BAAMC and others was of particular importance for the effective realization of the Fund's activities.



## 2. ACTIVITY

In 2013 the Fund celebrated 8 years from its creation. For those 8 years the capital market went from a period of expansion to a period of a drastic decrease in the prices of financial instruments both in Bulgaria and on international scale. As a result of the global financial and economic crisis a number of legislative measures were undertaken which, on the one hand aimed to improve investors' information and, on the other hand, to increase transparency and security in the trade with financial instruments. The legislative initiatives still continue.

In the last years there were significant in scale cases of compensation payments to investors in the EU which became a reason for a review of the European legislation in that field. Amendments regarding an increase in the scope of the schemes, the level of compensation and its harmonization on EU level were initiated but in 2013 the discussion of those amendments was ceased.

The main activity of the Bulgarian scheme for investors' compensation is payment of compensation to the clients of investment intermediary, in cases where the investment intermediary is not able to repay the money or financial instruments to its clients. There have been no cases of compensation payments since the creation of the Fund.

The compensations are paid with the initially accumulated contributions by the participants in the scheme. Only companies licensed by the FSC to perform investment services participate in the scheme. Investment intermediaries (II), asset management companies (AMC) and commercial banks (CB), in their activity as investment intermediaries participate in the Fund.

The majority of the Fund's resources are accumulated by the participants in the scheme. The amount of the accumulated resources was growing at different rates in the years. During the crisis this increase slowed down significantly.



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Analyses regarding the clients' assets and the number of clients eligible to compensation are periodically prepared by the Fund. Possible compensation payments that could be paid out by the Fund in case of investment intermediary failure are

calculated and thus the Fund's exposure to the participants is estimated as well as the adequacy of the level of funding provided to the Fund.

## 2.1 FUND'S RESOURCES

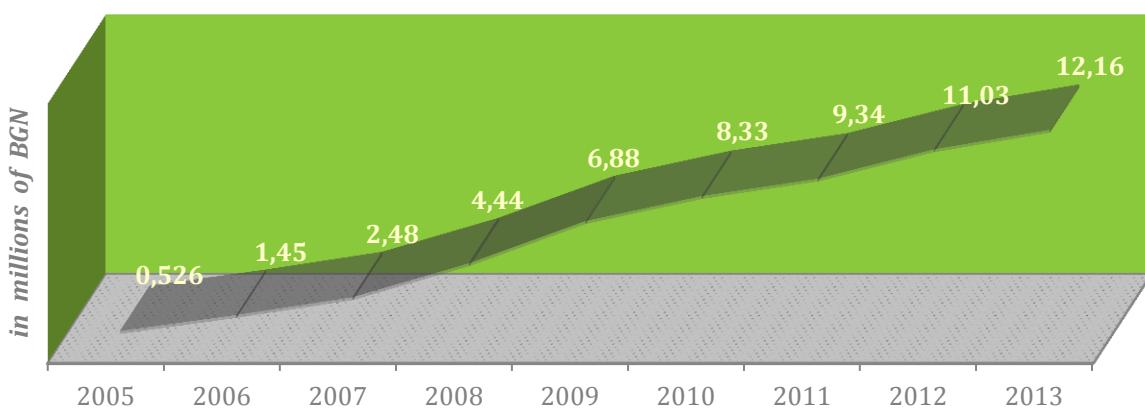
The main part of the Fund's resources is made up by the participants' annual contributions. Besides, each new participant joining the scheme makes an entrance payment.

Except the participants' contributions the Fund's resources are also made up from investment revenues.

Fig. 1 shows the amount of the accumulated resources at the end of each year.

**Fig. 1**

Accumulated fund's resources as of 31<sup>st</sup> of December



Source: ICF

# Annual Report for 2013

As of 31<sup>st</sup> of December 2013 the Fund's resources reached 12,16 million BGN and compared to an year earlier they increased by 1,13 million BGN. Those amounts were invested in short-term deposits and in government securities in accordance with the provisions of LPOS, ROOICF and Fund's internal rules. The largest increase on annual basis was observed in 2009 when the Fund's resources increased by 55% - from 4,44 million BGN as of the end of 2008 to 6,88 million BGN as of the end of 2009.

The administrative activities of the Fund are financed by the revenues from investments of its own resources.

The administrative expenses of the Fund for 2013 were 390 thousand BGN, as a saving of 4% from the initially foreseen expenses has been realized. A corporate tax of sixty-four thousand BGN due for 2012 but paid in 2013 was included in the amount of the expenses. Due to changes in the tax legislation concerning the Fund such a tax won't be due for 2013.

Thus, the financial result for the Fund for 2013 is a profit at the amount of 112 thousand BGN.<sup>1</sup>

## 2.1.1 CONTRIBUTIONS

The Fund collects entrance and annual contributions. The entrance contributions are lump-sum payments when a new member joins the scheme and their size depends on the type and the license of the participant.<sup>2</sup> In 2013 the revenues from entrance contributions were 17 500 BGN as they were collected from one B-II and one II that have joined the scheme.

The annual contributions are paid by all participants in the scheme that hold, administer and manage clients' assets, eligible to compensation. Those contributions are paid in four equal parts.

<sup>1</sup> The annual profit is calculated on the basis of financial revenues, increased (decreased) by the profit (loss) from revaluation of the GS and decreased by the administrative expenses of the Fund for the year.

<sup>2</sup> II with limited license do not participate in the scheme. AMC do not make entry contributions.



The size of the annual contribution is determined by the MB and it was for 2013 as follows:

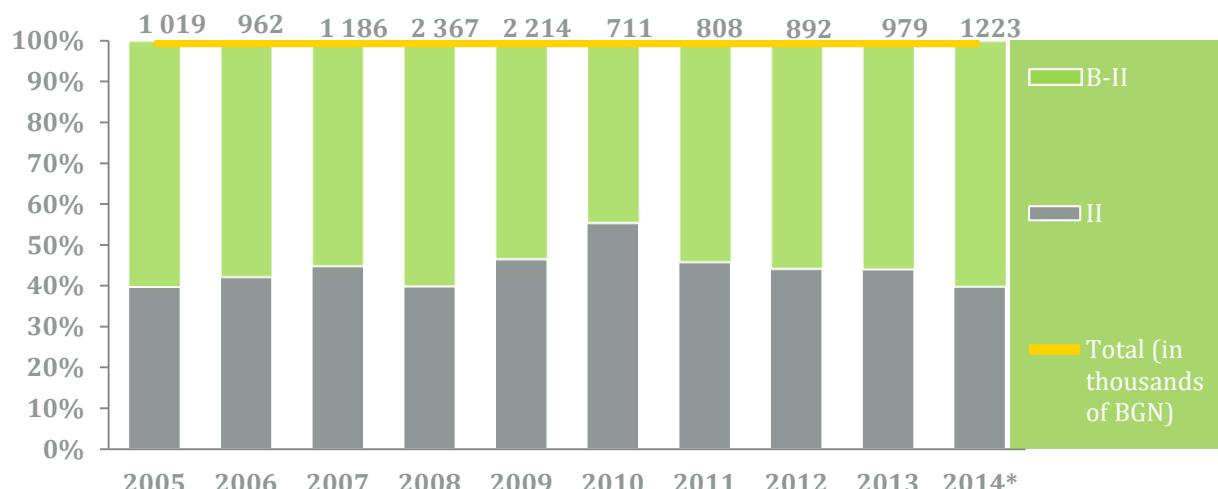
- 0,5% of the average monthly amount of the protected clients' funds for 2012 and
- 0,05% of the average monthly amount of the rest of the clients' assets, eligible to compensation in 2012.

The revenues from annual installments in 2013 were 994 thousand BGN.<sup>3</sup>

The amount of the annual installments mainly consists of revenues from investment intermediaries (II) and commercial banks, performing investment services.

Fig. 2 shows the amount of the annual installments collected by II and banks-investment intermediaries (B-II) from 2005 to 2013. For 2013 the amount of the annual installments was 979 thousand BGN compared to 892 thousand BGN in 2012, i.e. there is an increase of 9,5%.<sup>4</sup> The increase is due to the basis of calculation of the annual installments.

**Fig. 2**  
**Distribution of the revenues from installments  
 collected from II and B-II**



\*The data for 2014 are preliminary.

Source: ICF

<sup>3</sup> In 2013 one fourth of the annual contributions due for 2012 was paid until the 31<sup>st</sup> of January 2013 as well as three fourth for the annual contributions due for 2013. In 2013 additional contributions were also paid resulting from recalculation of the contributions by some of the participants due to incorrect reporting of clients' assets.

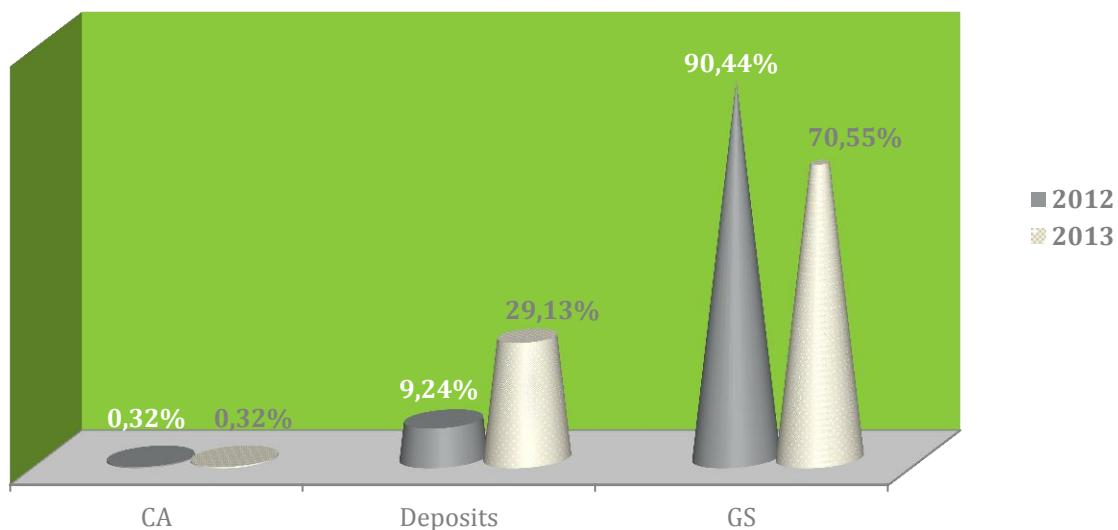
<sup>4</sup> In 2013 the participants in the scheme pay only three fourth of the annual contributions due for 2013 and the last one fourth is paid at the beginning of 2014.

The basis for the calculation of the contributions continued to grow in 2013 as at the end of the year the pre-crisis maximum amounts were reached. The share of the annual contributions paid by the banks was kept at almost the same level as in 2012 (55%). The amount of the annual contributions for 2014 is expected to be higher by approximately 200 thousand BGN compared to the contributions for 2013 which is due to an increase in the average amount of the protected clients' assets.

## 2.1.2 INVESTMENTS

According to the legal framework the Fund invests its money in financial instruments issued or guaranteed by the state, short-term deposits in CB and in the BNB. The Fund's resources are invested in accordance with „Fund's Investment Policy” by keeping the requirements for security, liquidity and yield, according to the market state. Fig. 3 shows the structure of the Fund's portfolio as of the end of 2013 and 2012.

**Fig. 3**  
Portfolio Structure



\*CA –Current Accounts

Source: ICF

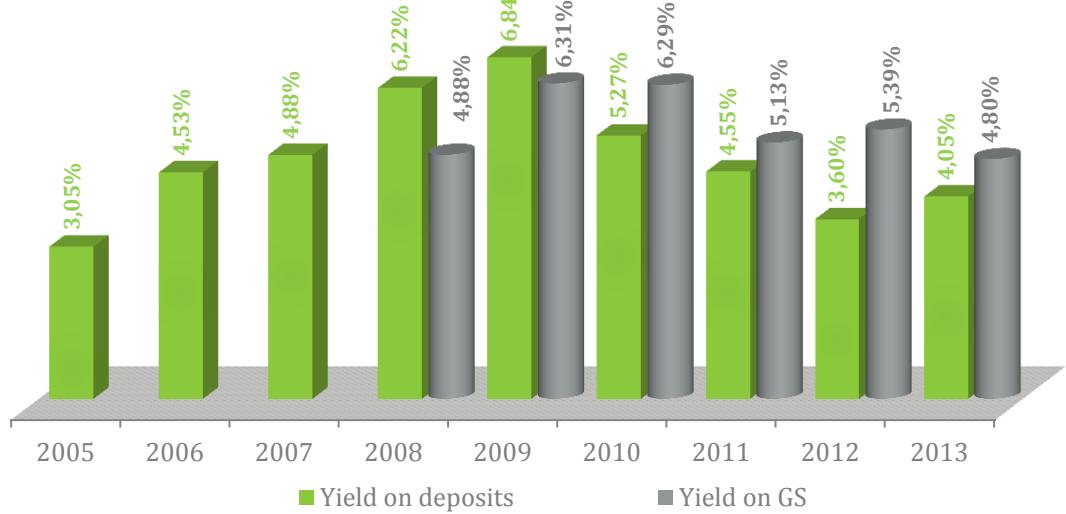
The share of deposits in the Fund's portfolio increased from 9,24% in 2012 to 29,13% in 2013. That increase is mainly due to issues of government securities that matured in 2013 which was also the reason for the decrease in the share of government securities in the Fund's portfolio to 70,55%. The low yield on government securities is also reflected in the portfolio structure. The amounts kept on the current account continued to be minimal.

The Fund's investments generate revenues that include interests on deposits, coupons

from government securities and profit (loss) from revaluation. In 2013 the revenues from investments were 440 thousand BGN compared to 1 167 thousand BGN in 2012. The reason for that decrease was the reported losses from revaluation of government securities due to a decrease in the prices of government securities in 2013.

Fig. 4 shows the realized average yield from the accrued interest on deposits and government securities in the period between 2005 - 2013.<sup>5</sup>

**Fig. 4**  
Annual yield on investments



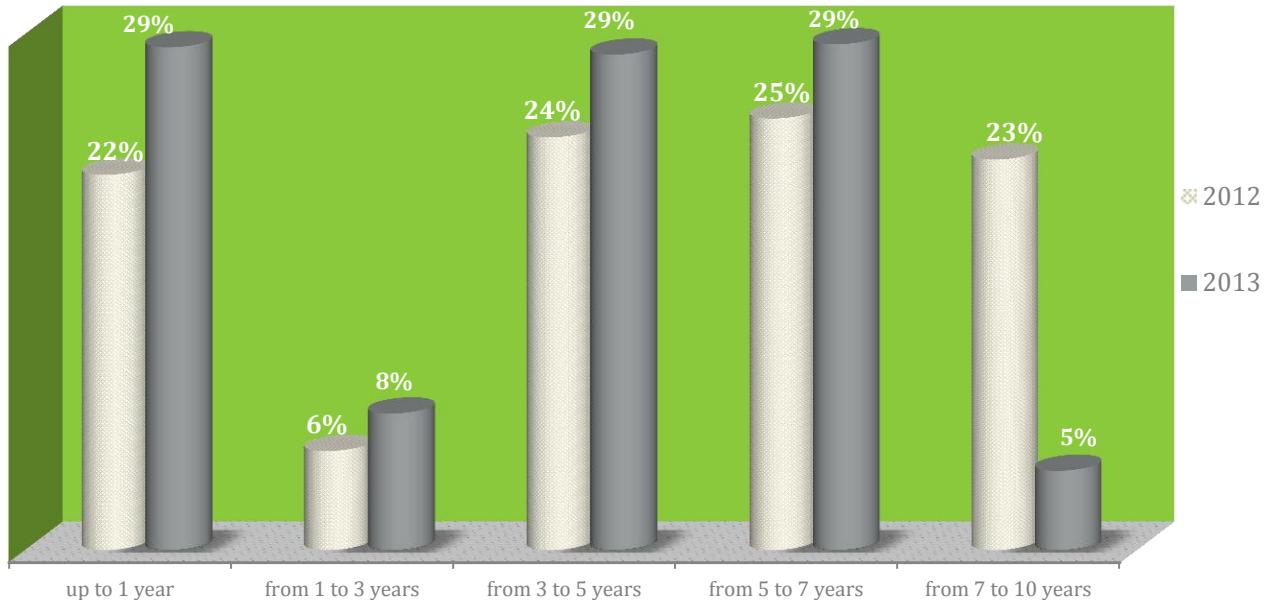
Source: ICF

<sup>5</sup> The average yield on investments is calculated as a ratio of the amount of the yield gained from investments during the year (respectively the yield from interest paid on deposits and GS coupons) and the average weighed amount of the deposits and government securities in the portfolio. The revenues from GS revaluations are not included.

In 2013 the average yield gained from interests on deposits was 4,05% and from coupons on government securities - 4,80%.

The Fund's portfolio as of 31<sup>st</sup> of December in government securities and deposits according to their maturity structure is shown on Fig. 5.

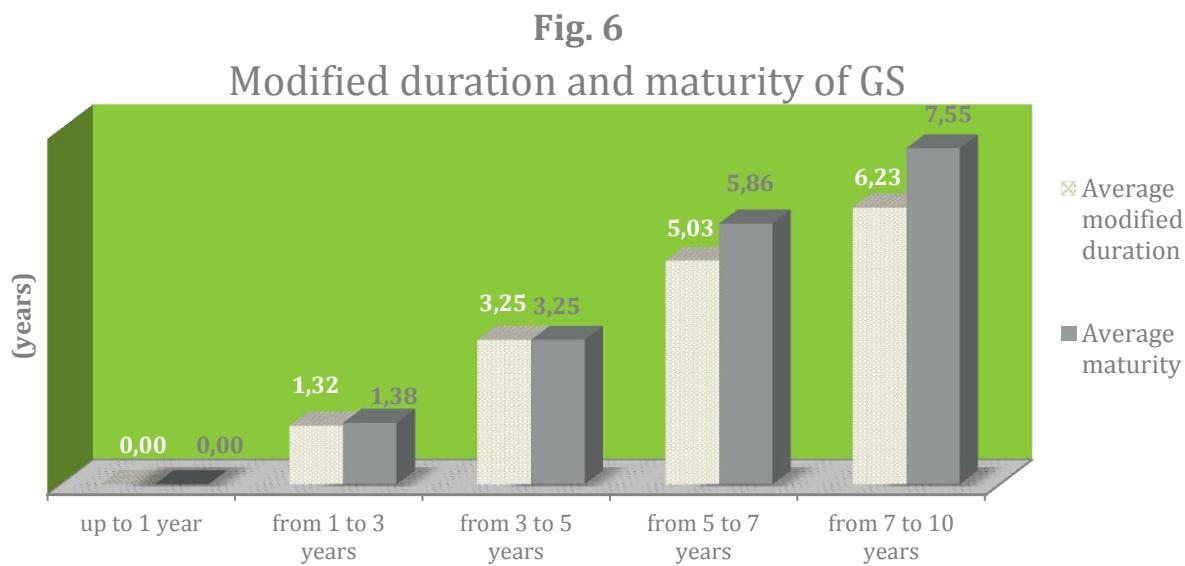
**Fig. 5**  
Portfolio maturity structure



Source: ICF

The modified duration and the average residual maturity of the investments in government securities are shown on Fig. 6

according to their maturity structure as of 31<sup>st</sup> of December 2013.



Source: ICF

There are no issues of GS that are expected to mature in 2014 and for that reason the modified duration and the residual maturity up to 1 year have a zero value. The average weighed modified duration of the portfolio of government securities is 3,97 years as of 31<sup>st</sup> of December 2013 compared to 4,10

years as of 31<sup>st</sup> of December 2012. The average residual maturity of the investments in GS is 4,54 years as of 31<sup>st</sup> of December 2013 compared to 4,79 years as of 31<sup>st</sup> of December 2012.

## 2.2 PARTICIPANTS

Three investment intermediaries dropped from the Bulgarian investor compensation scheme. Two of them voluntarily returned their licenses and the FSC revoked the license of the other as an administrative measure. Two II joined the scheme as the license of the one was transformed from

limited to partial which was the reason that investment intermediary to become a member of the scheme. The other investment intermediary was with a revoked license but several months later it recovered the rights as an investment intermediary. One bank and one

AMC joined the scheme. Thus, the participants in the Fund were 99 as of 31<sup>st</sup> of December 2013 of which 45 were II, 24 were B-II and 30 - AMC.

Table 1 shows the number of the II and AMC that dropped the scheme during the period

between 2009 - 2013 and as of 31<sup>st</sup> of December 2013 their number was 35. The new participants that joined the scheme during the period between 2009 - 2013 were 7 of which there was one bank.

**Table1** Number of the participants that dropped the scheme

	2009	2010	2011	2012	2013	TOTAL:
II	3	9	5	4	3	<b>24</b>
AMC	-	6	1	4	0	<b>11</b>

*Source: ICF*

The Bulgarian investment intermediaries develop their activities both on the Bulgarian and on the foreign capital market. Four II have branches established abroad<sup>6</sup>. Some of them closed part of their branches in 2013 and as of 31<sup>st</sup> of December investment services ceased to be offered through a branch in Great Britain, Spain, Norway, the Netherlands and Italy. One investment intermediary opened a new branch.

There are branches of Bulgarian II on the territory of the following countries: Romania, Poland, Czech Republic, Slovakia and Austria. The II that have declared free providing of services were 14. Bulgarian investment intermediaries are allowed to work on the principle of free providing of services without establishing a branch in all EU member states.

<sup>6</sup> According to the list published on the Internet site of the Financial Supervision Commission that have the right to provide investment services on the territory of other member-states as of 26<sup>st</sup> of November 2013.



## 2.3 CLIENTS' ASSETS MANAGED BY THE PARTICIPANTS

The Bulgarian investor compensation scheme guarantees investors up to 90% of their claims as the maximum amount of compensation payable to one person is 40 000 BGN.

Table 2 shows the distribution of clients' assets by groups of participants (II, B-II, AMC). Depending on that if the clients' assets are eligible or not eligible to compensation (clients' funds and financial instruments), they are segregated in protected and non-protected clients' assets. The total amount of protected and non-protected clients' assets indicates the total amount of clients' assets traded through Bulgarian investment intermediaries.

**Table 2** Clients' assets managed by the scheme participants as of 31<sup>st</sup> of December 2013

	Protected clients' assets as of 31 <sup>st</sup> of December 2013	Protected clients' assets as of 31 <sup>st</sup> of December 2012	Change on annual basis	Non-Protected clients assets as of 31 <sup>st</sup> of December 2013	Non-Protected clients assets as of 31 <sup>st</sup> of December 2012	Change on annual basis
	(1)	(2)	[3=(1-2)/2]	(4)	(5)	[6=(4-5)/5]
FI – B-II	1 673 211 811	1 411 008 591	19%	12 073 094 144	8 873 712 538	36%
FI – II	585 135 111	631 469 312	-7%	3 264 979 078	2 606 506 187	25%
CF – II	46 351 800	35 849 912	29%	19 523 837	14 023 773	39%
FI-AMC	20 444 066	12 254 825	67%	3 233 659	32 709 217	-90%
CF – AMC	304 706	710 527	-57%	751 883	146 231	414%
Total:	2 325 447 494	2 091 293 166	11%	15 361 582 601	11 527 097 945	33%

\*FI –financial instruments; CF – clients' funds

Source: ICF

According to the data from the participants in the Fund, clients' assets managed by them were 17,7 billion BGN as of 31<sup>st</sup> of December 2013 of which 2,325 billion BGN are protected and 15,36 billion BGN are not protected incl. clients' funds (CF) and financial instruments (FI).

Protected clients' assets continued to increase and as of 31<sup>st</sup> of December 2013 they are by 11% more compared to the end of 2012. The increase is due to an increase of financial instruments by 19% held by the B-II compared to the 31<sup>st</sup> of December 2012. Banks continued to hold



the majority of the protected financial instruments and as of 31<sup>st</sup> of December 2013 their amount reached 1,67 billion BGN compared to 1,4 billion BGN a year earlier. Regarding II, as of the end of 2013 the FI held by them are by 7% less and CF increased by 29%. The AMC noted an increase only in the FI<sup>7</sup>.

The average monthly amount of FI and CF is a more objective indicator for the clients' assets held by the participants during the year as it is possible changes to be observed in a certain month that do not reflect the real conditions on the market in the year. Besides, the average monthly amount of the protected assets is a basis for the calculation of contributions paid by the scheme participants.

The average monthly amount by the protected FI held by investment intermediaries in 2013 increased by 5% compared to 2012 and it reached 514,5 million BGN. In 2013 the protected FI held by the B-II were 1,47 billion BGN on monthly average basis as in 2012 they were 1,09 billion BGN, i.e. there is an increase on annual basis by 34%.

<sup>7</sup>. Of all 30 asset management companies only 6 participate effectively in the Fund, as 3 of them declared to hold protected clients' assets.

The average monthly amount of all protected clients' assets is about 2,028 billion BGN as the pre-crisis levels were almost reached - 96% of the amount of the financial instruments in 2007.

As of 31<sup>st</sup> of December 2013 the share of the resources collected by the Fund (12,16 million BGN) in the total amount of the protected clients' assets (2,325 billion BGN) is 0,52%. According to Art. 77t, para 1 of the LPOS when the Fund's resources exceed 5% of the total amount of clients' assets held by scheme participants the collection of the annual contributions should be ceased. As of 31<sup>st</sup> of December 2012 5% of clients' assets eligible to compensation amounted to 116 million BGN (5% of 2,325 billion BGN) compared to 104 million BGN as of 31<sup>st</sup> of December 2012. For that period the resources being at Fund's disposal increased only by 1,13 million BGN.

The increase is also evident regarding non-protected clients' assets – by 33% and it is both at financial instruments held by II and B-II as well as regarding CF. Only the unprotected FI held by AMC decreased significantly.



The total amount of clients' assets held by B-II (protected and unprotected) is 13,75 billion BGN. The share of protected clients' assets is hardly 12% of all FI, held by B-II and the rest 88% belong to big professional investors that do not fall in the coverage provided by the Fund. The amount of FI, held by II is 3,8 billion BGN and the amount of CF is 65,8 million BGN. Thus, the total amount of clients' assets held by II is 3,9 billion BGN. The share of the protected assets in the total amount of clients' assets held by II is 16%, i.e. only 16% of the investment intermediaries' clients are eligible to compensation by the Fund. The AMC held about 24 million BGN protected and unprotected clients' assets, as the share of the protected clients' assets is 84%.

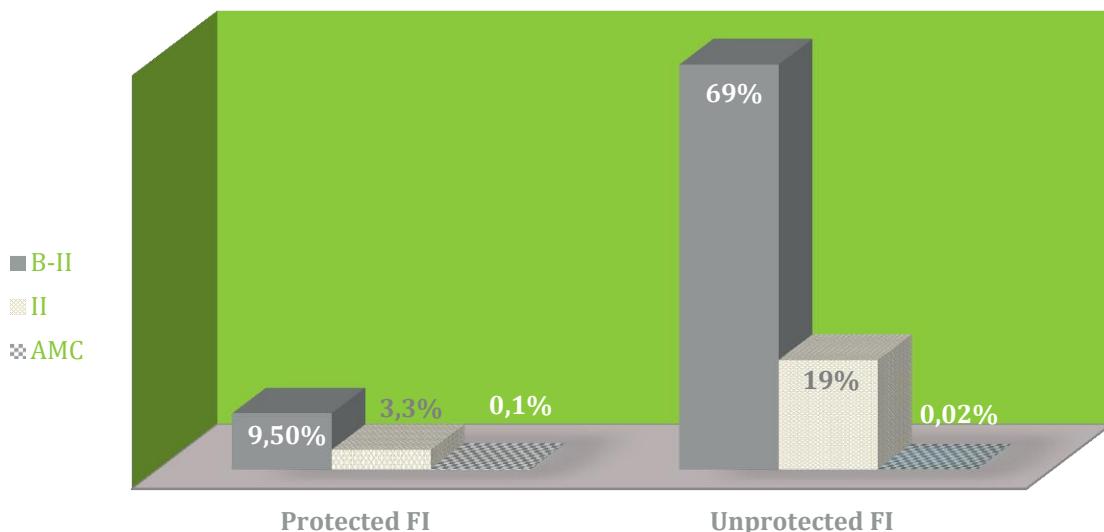
Information on the clients' funds is only reported from II and AMC. Clients' funds held by the B-II are considered as deposits and they fall in the scope of coverage of DIF and for that reason they are not reported in the Fund. The total amount of the protected CF held by II and AMC is 46,7 million BGN as

31<sup>st</sup> of December 2013 as there is an increase on annual basis by 28%. CF are 2% of all assets eligible to compensation. In 2013 the amount of CF on average monthly basis was 48 million BGN or by 25% more compared with 2012. The unprotected CF were by 20 million BGN more or by 43% as of 31<sup>st</sup> of December 2013 compared with the previous year.

Fig. 7 shows the distribution of financial instruments, both eligible and not eligible to compensation, by types of scheme participants. As of 31<sup>st</sup> of December 2013 the protected FI are about 12,9% of all FI. The biggest share is of clients' assets held by B-II – about 78,5% of all FI (9,5% of the protected and 69% of the unprotected). II hold about 22,3% of all FI of which 3,3% are protected and 19% - unprotected. Insignificant part of FI is held by AMC – about 0,12%. Due to the higher increase in the amount of the unprotected FI the share of the protected FI held by all participants decreased by 2% on annual basis.



**Fig. 7**  
 Distribution of FI by types of scheme participants as of  
 31<sup>st</sup> of December 2013



Source: ICF

Table 3 shows information on the clients' FI eligible to compensation for specific periods. There are three figures regarding the protected financial instruments in the table: the lowest value (918 million BGN), the highest value (2,48 billion BGN) and the current value as of 31<sup>st</sup> of December 2013. (2,26 billion BGN). There have been an increase in the amount of FI since the end of 2012 as well as in the whole 2013 as the

amount of 2,26 billion BGN reached in December 2013 is 90% of the peak value of the FI reported in August 2008. Despite the Bulgarian capital market has been recovering slowly from the global financial crisis, there is a certain increase in the amount of FI held by the scheme participants in 2013.

**Table 3** Protected Clients' Assets

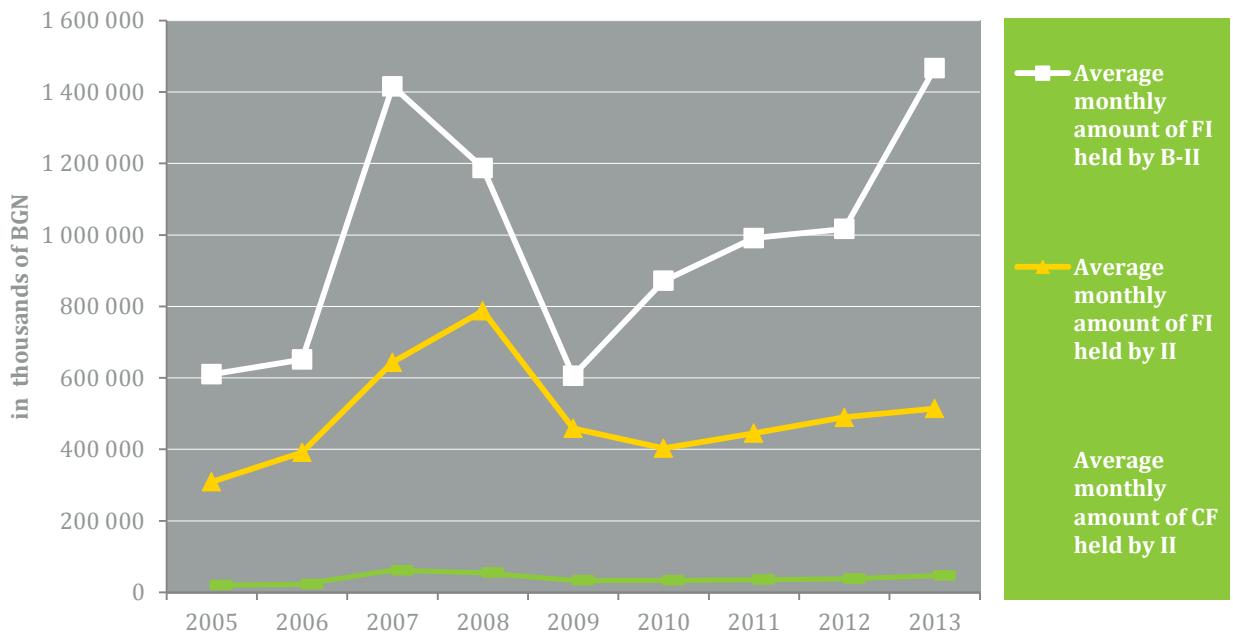
Clients' FI	Date	Peak Value	Minimum	Current Value
	August, 2008	<b>2 483 880 619</b>		
Clients' FI held by B-II and II	February, 2009		<b>917 667 292</b>	
	December, 2013			<b>2 258 346 922</b>
<b>% of the peak value</b>		<b>100,00%</b>	<b>-63,06%</b>	<b>-10,0%</b>

Source: ICF

In 2013 the smallest amount of the protected FI was declared in June – 1,8 billion BGN, and the highest amount – in December (2,26 billion BGN). Regarding the II the smallest amount of FI was declared in May, 2013 (391 million BGN), and the highest amount in February 2013 (642 million BGN). Regarding B-II the smallest amount of FI was reported in February 2013 (1,27 billion BGN) and the biggest amount – in the last month of 2013 (1,67 billion BGN).

Fig. 8 shows on a monthly average basis the amount of the protected clients' assets by years and by types of scheme participants. It is evident from the figure that the average monthly amount of the protected clients' assets increased significantly in 2013. The increase was the highest at the B-II that held average in 2013 about 1,47 billion BGN or compared with 2012 the increase was by 34%. Regarding II the FI increased gradually as for 2013 that increase was with 515 million BGN.

**Fig. 8**  
The average monthly amount of the protected clients' assets



Source: ICF

The amount of the CF held by the II is by 24% higher on average monthly basis compared with the previous year as in 2013 they reach 46 million BGN.

Table 4 shows the amount of the protected clients' assets, stock exchange capitalization and GDP as of 31<sup>st</sup> of December.

**Table 4** Clients' assets, stock exchange capitalization and GDP as of 31<sup>st</sup> of December

	2013	2012	2011	2010	2009	2008
Clients' assets, eligible to compensation (millions BGN)	2 325	2 091	1 612	1 322	1 259	1 314
Stock exchange capitalization (millions BGN)	9 961	9 828	12 436	10 754	11 796	12 461
Clients' assets/Stock exchange capitalization	23%	21,28%	12,96%	12,00%	11,00%	11,00%
GDP (millions BGN)	79 454	77 323	75 265	70 474	68 322	69 295
Stock exchange capitalization /GDP	12,5%	12,71%	16,52%	15,00%	17,00%	18,00%

Source: BSE Internet site, ICF.

The share of the protected clients' assets in the amount of the stock exchange capitalization increased from 21,28% at the end of 2012 to 23% at the end of 2013. On one hand, that increase was due to the increased amount of clients' assets eligible to compensation and, on the other hand, due to the unchanged size of the stock

exchange capitalization. The total amount of the clients' assets held by the participants in the scheme was 17,6 billion BGN as the stock exchange capitalization was 9,9 billion BGN, which shows that a significant part of clients' assets were invested in foreign instruments.

## 2.4 EXPOSURE TO THE PARTICIPANTS

On semi-annual basis the participants in the scheme report information on the number of clients eligible to compensation. That data allows the calculation of the possible compensation payments. The calculation of the Fund's exposure provides possibility for estimation whether the Fund's resources are sufficient for compensation payments.

In 2013 the Fund changed the report on the number of clients which led to improving the estimations on the possible compensation payments in cases of scheme activation. By adding new intervals more even distribution of the compensation in the different intervals of clients' assets is achieved.

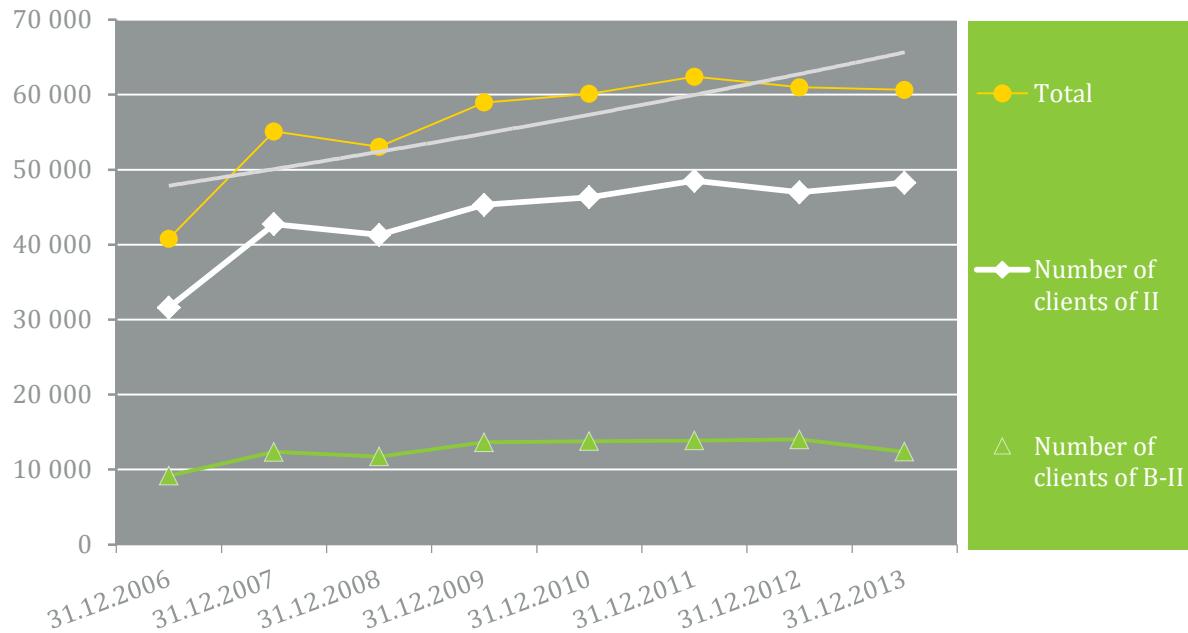
Fig. 9 shows the number of investors, eligible to compensation as of 31<sup>st</sup> of December distributed by types of scheme participants from 2006 to 2013. As of 31<sup>st</sup> of December 2013 the number of the protected clients was 60 660, which was by 337 investors less than the previous year. The number of investors has been decreasing since 2011 when the highest number of clients was reported from the Fund's creation up to now. Nevertheless, the banks report the biggest amount of protected FI, they declared a small number of investors as of 31<sup>st</sup> of December 2013 (12384) as in the last year their number decreased by 1 631. That is the smallest number of protected investors reported by



the banks. There is an increase in the number of investors reported by the II - by 1294. Regarding the AMC the number of the

clients is the smallest – 131 and for that reason they are not added in the figure.

**Fig. 9**  
Number of clients by types of scheme participants



Source: ICF

II have 4 times more protected clients (over 48 thousand) in comparison with the banks. On the other hand, clients' assets managed by the II were 631 million BGN compared to 1,67 billion BGN managed by B-II that have 12 thousand clients.

Fig. 10 shows the distribution of the protected clients and the maximum compensation that could be paid by the Fund to the clients in each interval of clients' assets.<sup>8</sup>

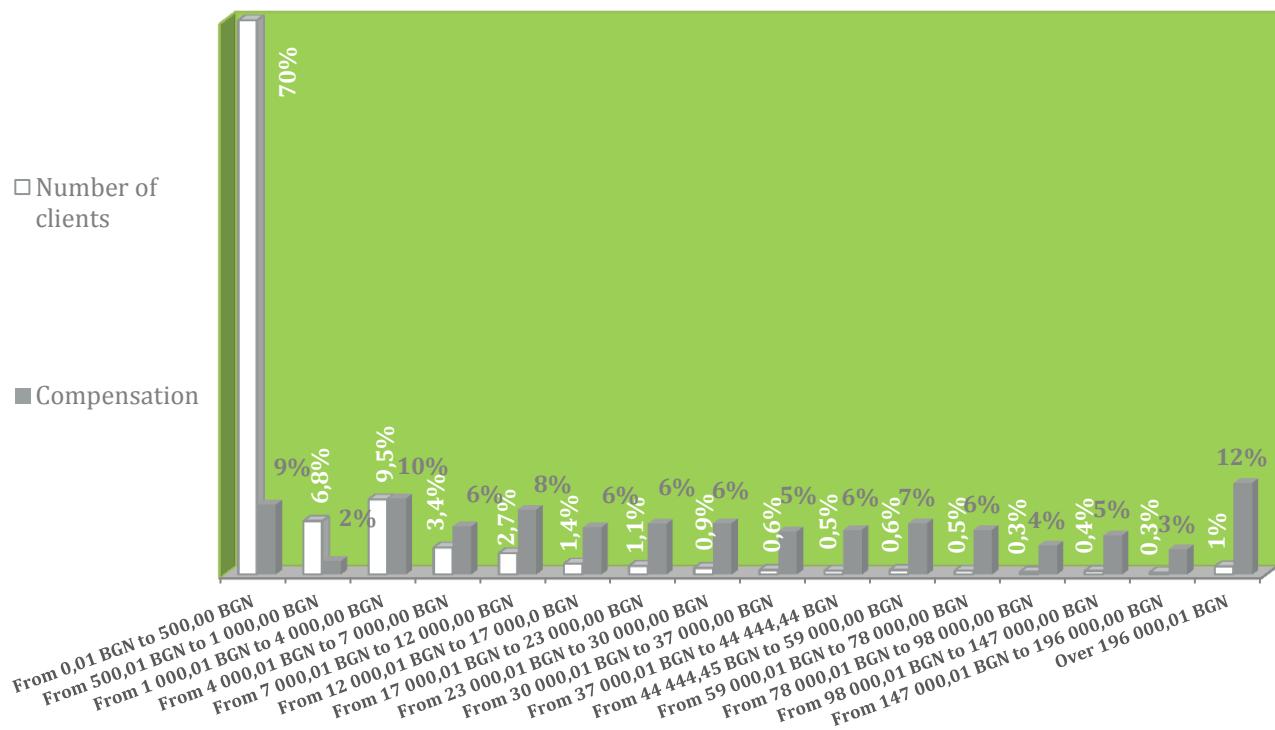
<sup>8</sup> The maximum compensation to the clients of one investment intermediary is calculated as 90% of the amount of clients' assets but not more than 40 000 BGN per investor. The calculations are based on the information provided by investors as of 31<sup>st</sup> of December 2013. Due to the assumption that clients hold assets at the amount equal to the amount in the upper range where they fall, thus the estimated compensation payment is increased.

The calculated maximum amount of compensation is 216 million BGN as of 31<sup>st</sup> of December compared to 244 million BGN as of 31<sup>st</sup> of December 2012, i.e. by 28 million BGN less. One of the possible reasons for that decrease is the smaller number of clients reported by the participants. The amendment in the report on the number of clients' assets also has an effect. In the report the clients are distributed into 16 intervals which allow

more precise calculation of the compensation payments and the additional increase in the estimations is limited. The biggest decrease in the estimated compensation payments is in the interval up to 1000 BGN which was separated into two intervals – *up to 500 BGN* and *from 501 up to 1000 BGN*. Thus, the amount of the estimated compensation payments in that interval decreased by 18 million BGN.

**Fig. 10**

Distribution of the maximum estimated compensation and the number of clients by groups of clients' assets



Source: ICF

The estimated total exposition of the Fund to all participants is about 216 million BGN. As of 31<sup>st</sup> of December the amount of the contributions collected by the Fund equaled to 12,16 million BGN, i.e. the Fund has at its disposal 5,6% of the total amount of the estimated compensation payments.

The biggest number of investors (70%) fall in the first interval with the amount of assets up to 500 BGN. The estimated compensation payments for those clients are 9% of the total estimated compensations payments. The majority of funds would be necessary for compensation payments to investors holding assets over 196 thousand BGN (12%). In absolute terms the Fund's obligations would be equal to 25 million BGN for 1% of all clients eligible to compensation.

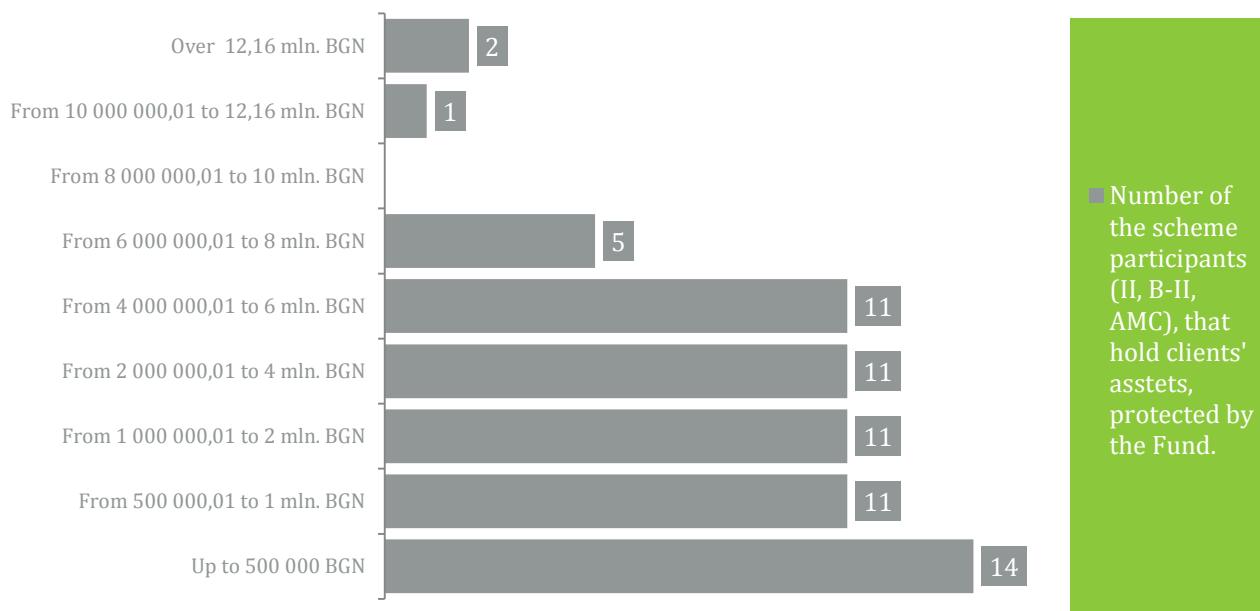
The next interval regarding the size of the estimated compensation payments includes clients holding assets up to amount of 4 thousand BGN – 10% of the total amount of the estimated compensation payments.

The biggest exposure of the Fund to II is 156 million BGN as the biggest share belongs to II with a full license. The Fund's exposure to the clients in all B-II is about 59,8 million BGN. Regarding AMC which hold clients' assets eligible to compensation the estimated Fund's exposure is 3,09 million BGN. The total amount of the estimated maximum compensation is about 9% of all clients' assets eligible to compensation.

Fig. 11 shows the distribution of the participants according to the Fund's exposure to the clients up to the amount of the disposal resources in the scheme.



**Fig. 11**  
Number of participants depending on the fund's exposure  
to their clients



Source: ICF

The participants that do not submit information to the Fund are not included in the figure as the number of the active participants in the Fund is 66. The biggest number of the participants that could receive estimated compensation payments up to the amount of 500 thousand BGN is 14 of which 9 are II, 3 are B-II and 2 are AMC. There is an equal number of participants (11) in the next 4 intervals. For two of the II the calculated compensation payments are above the amount of the resources collected by the Fund. In those cases it is possible the

Fund to collect additional resources in accordance with the provisions of Art. 77c of the LPOS. On the other hand, the accumulated resources by the Fund could be enough for compensating the clients of several investment intermediaries simultaneously where the estimated compensation payments are at smaller amount.

Annex № 2 shows the distribution of the number of clients eligible to compensation

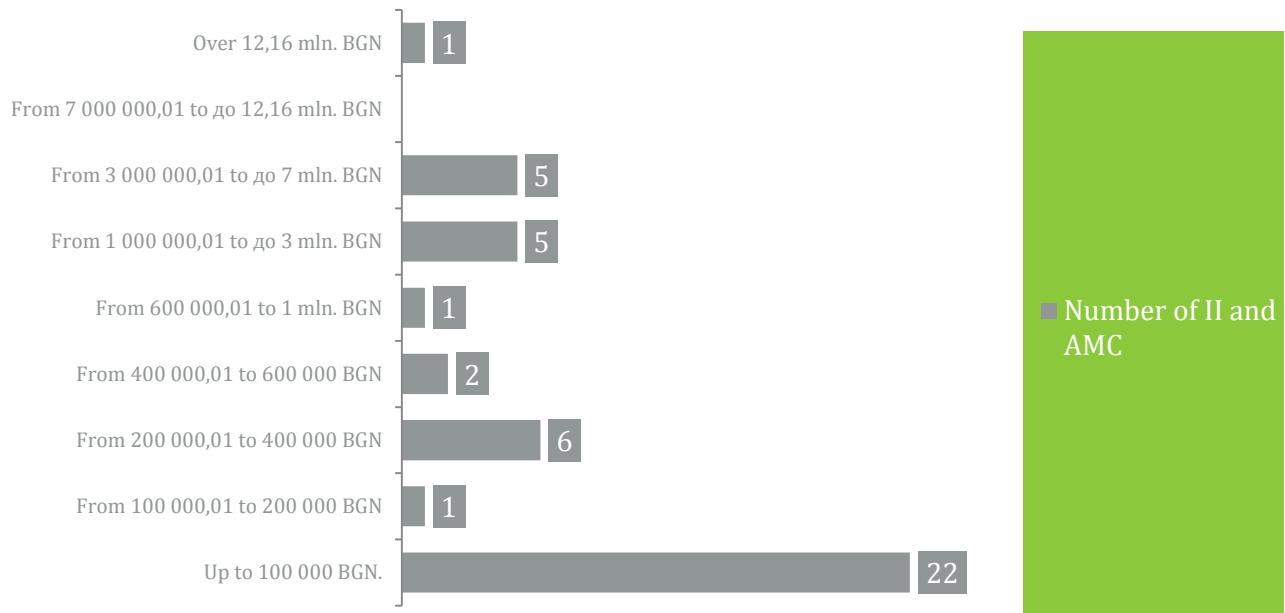
by groups of clients' assets both for II and B-II.

CF are analyzed separately as they are considered to be riskier compared to FI. As of 31<sup>st</sup> of December 2013 the total amount of the protected CF (held by the II and AMC) were 46,7 million BGN. As of 31<sup>st</sup> of December 2013 the unprotected CF were more than 20 million BGN and the total amount of CF (protected and unprotected) were 66,9 million BGN.

Fig. 12 shows the distribution of II and AMC according to the protected CF eligible to compensation held by them. The biggest number of the participants (22) is that falling in the range that holds CF up to 100 thousand BGN. There are 6 II and AMC in the range from 200 thousand BGN to 400 thousand BGN. There is an equal number of participants (5) holding CF that fall in the ranges from 1 to 3 million BGN and from 3 to 7 million BGN. One participant in the scheme manages clients' funds over the available resources in the Fund.

**Fig. 12**

Amount of clients' funds held by II and AMC as of 31<sup>st</sup> of December 2013<sup>9</sup>



Source: ICF

<sup>9</sup> II and AMC with a zero amount of clients' assets are not included in the range of up to 100 thousand BGN.

## 3.5 INTERNATIONAL ACTIVITIES

The international activities of the Fund are related mainly with the Fund's membership in EFDI (European Forum of Deposit Insurers) as well as with establishing bilateral agreements with other European investor compensation schemes.

In September 2013 the Deputy Chairperson of the Fund participated in the EFDI Annual meeting which was held in Rome. During the EFDI Annual meeting the first international meeting of investor compensation schemes was held. For the first time in Europe representatives from Asia, America and Canada attended that meeting. The information about the meeting created interest and for that reason details on the discussions are presented in Annex № 3.

In 2013 the discussed amendments in the Directive on Investor Compensation Schemes were not finalized and as of the end of the year it became clear that their finalization is postponed for the moment.

During the year maintaining international contacts with the majority of the European schemes continued. Those contacts are important especially in cases of studying the international experience taking into consideration the peculiarities in the work of the schemes. In this relation the international cooperation of the Fund continues to be of its priorities as it has an important role for improving and developing the activities in the field of investor compensation.

## 4. THE FUND IN 2014

The main function of the Fund in 2014 will be investor protection by paying compensation in accordance with the legal rules and provisions. In order to provide its solvency the Fund continues to collect and invest its resource in accordance with the requirements set in the legal framework and the internal rules of the Fund.

In 2014 the Fund is going to develop its internal systems for processing and analyzing clients' assets in order to achieve automation of the majority of the documents exchange between the Fund and its participants. Additionally, in order to achieve better information and to facilitate the work of the consumers the Fund foresees a change in its Internet web site in 2014.

The cooperation of the Fund with national institutions and organizations has a significant role for its efficiency and for that reason the maintenance of those relations is going to be a priority.

The peculiarities of investor compensation schemes put the international exchange of information among the main channels for the development of those schemes. In 2014 the Fund's employees are going to continue their participation in international seminars, meetings and working groups that deal with issues related with investor protection. That contributes to the prestige of the Fund among its international partners.



## INVESTMENT INTERMEDIARIES

- |  |  |
|--|--|
| 1 ABC FINANCE AD                         | 23 ZAGORA FINACORP AD                  |
| 2 ABV - INVESTMENTS LTD                  | 24 ZLATEN LEV BROKERS LTD              |
| 3 ADAMANT CAPITAL PARTNERS AD            | 25 BETA CORP AD                        |
| 4 AUSTRIAN BULGARIAN INVESTMENT GROUP AD | 26 INTERCAPITAL MARKETS AD             |
| 5 AVUS CAPITAL OOD                       | 27 FAVORIT CLS                         |
| 6 AVAL IN AD                             | 28 FINA-S AD                           |
| 7 ALARIC SECURITIES LTD                  | 29 CAPMAN AD                           |
| 8 BALKAN INVESTMENT COMPANY AD           | 30 KAROL AD                            |
| 9 BALKAN CONSULTING COMPANY AD           | 31 CAPITAL INVEST LTD                  |
| 10 BG PROINVEST AD                       | 32 CAPITAL MARKETS AD                  |
| 11 БЕНЧМАРК ФИНАНС АД                    | 33 POZITIVA AD                         |
| 12 BMFN EAD                              | 34 FIRST FINANCIAL BROKERAGE HOUSE LTD |
| 13 BUL TREND BROKERAGE LTD               | 35 REAL FINANCE AD                     |
| 14 BULBROKERS AD                         | 36 RNK CAPITAL AD                      |
| 15 VARCHEV FINANCE LTD                   | 37 SOMONI FINANCIAL BROKERAGE LTD      |
| 16 GLOBAL MARKETS LTD                    | 38 SOFIA INTERNATIONAL SECURITIES      |
| 17 D.I.S.L. SECURITIES LTD               | 39 STANDARD INVESTMENTS AD             |
| 18 DE NOVO EAD                           | 40 STATUS INVEST AD                    |
| 19 DELTA STOCK AD                        | 41 TBI INVEST EAD                      |
| 20 DEALING FINANCIAL COMPANY AD          | 42 FACTORY AD                          |
| 21 EURO - FINANCE AD                     | 43 FH EVER AD                          |
| 22 ELANA TRADING AD                      | 44 FOCAL POINT INVESTMENTS AD          |
|  | 45 UG MARKET LTD                       |



## BANKS – INVESTMENT INTERMEDIARIES

- 1 ALLIANZ BANK BULGARIA AD
- 2 BULGARIAN – AMERICAN CREDIT BANK AD
- 3 BULGARIAN DEVELOPMENT BANK AD
- 4 CENTRAL COOPERATIVE BANK AD
- 5 CIBANK AD
- 6 CITIBANK N.A. – SOFIA BRANCH
- 7 CORPORATE COMMERCIAL BANK
- 8 CREDIT AGRICOLE BULGARIA EAD
- 9 D COMMERCIAL BANK AD
- 10 DSK BANK EAD
- 11 EUROBANK BULGARIA AD
- 12 FIRST INVESTMENT BANK AD
- 13 INTERNATIONAL ASSET BANK AD
- 14 INVESTBANK AD
- 15 MUNICIPAL BANK AD
- 16 MKB UNIONBANK AD
- 17 PIRAEUS BANK BULGARIA AD
- 18 RAIFFEISENBANK (BULGARIA) AD
- 19 SOCIETE GENERALE EXPRESSBANK AD
- 20 TEXIM BANK AD
- 21 TOKUDA BANK AD
- 22 UNICREDIT BULBANK AD
- 23 UNION BANK AD
- 24 UNITED BULGARIAN BANK AD



## ASSET MANAGEMENT COMPANIES

- |  |   |
|--|---|
| 1 AVRORA CAPITAL AD                    | 16 KD INVESTMENTS EAD                                     |
| 2 ACTIVA ASSET MANAGEMENT AD           | 17 KTB ASSET MANAGEMENT EAD                               |
| ALFA ASSET MANAGEMENT COMPANY<br>3 EAD | 18 UBB ASSET MANAGEMENT AD                                |
| 4 ARKUS ASSET MANAGEMENT AD            | 19 MUNICIPAL BANK ASSET MANAGEMENT EAD                    |
| 5 ASTRA ASSET MANAGEMENT AD            | FIRST FINANCIAL BROKERAGE HOUSE<br>20 ASSET MANAGEMENT AD |
| 6 BENCHMARK ASSET MANAGEMENT AD        | RAIFFEISEN ASSET MANAGEMENT<br>21 (BULGARIA) EAD          |
| 7 BALKAN CAPITAL MANAGEMENT AD         | 22 REAL FINANCE ASSET MANAGEMENT AD                       |
| 8 VARCHEV MANAGING COMPANY EAD         | 23 SENTINEL ASSET MANAGEMENT AD                           |
| 9 DSK ASSET MANAGEMENT AD              | 24 SOMONI ASSET MANAGEMENT AD                             |
| 10 EXPAT ASSET MANAGEMENT AD           | 25 STATUS CAPITAL AD                                      |
| 11 ELANA FUND MANAGEMENT AD            | 26 SAGLASIE ASSET MANAGEMENT AD                           |
| 12 INVEST CAPITAL EAD                  | 27 TBI ASSET MANAGEMENT EAD                               |
| 13 INVEST FUND MANAGEMENT AD           | 28 ZLATEN LEV CAPITAL AD                                  |
| 14 CAPMAN ASSET MANAGEMENT AD          | 29 CCB ASSET MANAGEMENT AD                                |
| 15 KAROL CAPITAL MANAGEMENT EAD        | 30 UG MARKET FUND MANAGEMENT AD                           |



**Distribution of the number of the protected clients and estimated compensation payments  
by ranges of clients 'assets, eligible to compensation as 31<sup>st</sup> of December 2013**

<b>Ranges of Clients' Assets</b>	<b>Number of clients of II</b>	<b>Estimated compensation payments to II (in BGN)</b>		<b>Number of clients of B-II</b>		<b>Estimated compensation payments to B-II (in BGN)</b>		<b>Total number of clients</b>		<b>Total estimated compensation (in BGN)</b>		
<i>From 0,01 BGN to 500,00 BGN</i>	35 406	73%	15 932 700	10%	7 050	57%	3 172 500	5%	42 456	70%	19 105 200	9%
<i>From 500,01 BGN to 1 000,00 BGN</i>	2 569	5%	2 312 100	1%	1 532	12%	1 378 800	2%	4 101	7%	3 690 900	2%
<i>From 1 000,01 BGN to 4 000,00 BGN</i>	4 175	9%	15 030 000	10%	1 595	13%	5 742 000	10%	5 770	10%	20 772 000	10%
<i>From 4 000,01 BGN to 7 000,00 BGN</i>	1 532	3%	9 651 600	6%	550	4%	3 465 000	6%	2 082	3%	13 116 600	6%
<i>From 7 000,01 BGN to 12 000,00 BGN</i>	1 266	3%	13 672 800	9%	375	3%	4 050 000	7%	1 641	3%	17 722 800	8%
<i>From 12 000,01 BGN to 17 000,0 BGN</i>	665	1,4%	10 174 500	7%	177	1,4%	2 708 100	5%	842	1%	12 882 600	6%
<i>From 17 000,01 BGN to 23 000,00 BGN</i>	529	1,1%	10 950 300	7%	142	1,1%	2 939 400	5%	671	1%	13 889 700	6%
<i>From 23 000,01 BGN to 30 000,00 BGN</i>	405	0,8%	10 935 000	7%	114	0,9%	3 078 000	5%	519	1%	14 013 000	6%
<i>From 30 000,01 BGN to 37 000,00 BGN</i>	249	0,5%	8 291 700	5%	104	0,8%	3 463 200	6%	353	1%	11 754 900	5%
<i>From 37 000,01 BGN to 44 444,44 BGN</i>	227	0,5%	9 080 000	6%	79	0,6%	3 160 000	5%	306	1%	12 240 000	6%
<i>From 44 444,45 BGN to 59 000,00 BGN</i>	263	0,5%	10 520 000	7%	88	0,7%	3 520 000	6%	351	1%	14 040 000	7%
<i>From 59 000,01 BGN to 78 000,00 BGN</i>	228	0,5%	9 120 000	6%	78	0,6%	3 120 000	5%	306	1%	12 240 000	6%
<i>From 78 000,01 BGN to 98 000,00 BGN</i>	140	0,3%	5 600 000	4%	58	0,5%	2 320 000	4%	198	0%	7 920 000	4%
<i>From 98 000,01 BGN to 147 000,00 BGN</i>	199	0,4%	7 960 000	5%	69	0,6%	2 760 000	5%	268	0%	10 720 000	5%
<i>From 147 000,01 BGN to 196 000,00 BGN</i>	106	0,2%	4 240 000	3%	65	0,5%	2 600 000	4%	171	0%	6 840 000	3%
<i>Over 196 000,01 BGN</i>	317	0,7%	12 680 000	8%	308	2%	12 320 000	21%	625	1%	25 000 000	12%
<b>TOTAL:</b>	<b>48 276</b>	<b>100%</b>	<b>156 150 700</b>	<b>100%</b>	<b>12 384</b>	<b>100%</b>	<b>59 797 000</b>	<b>100%</b>	<b>60 660</b>	<b>100%</b>	<b>215 947 700</b>	<b>100%</b>

## INTERNATIONAL MEETING OF INVESTOR COMPENSATION SCHEMES, HELD IN ROME ON THE 21<sup>ST</sup> OF SEPTEMBER 2013, PONTIFICAL LATERAN UNIVERSITY

The first international meeting of investor compensation schemes from all over the world, organized by EFDI, was held on the 21<sup>st</sup> of September 2013 in the Pontifical Lateran University in Rome. The main initiator for the organization of that meeting was the Canadian scheme. Representatives from 24 investor compensation schemes from all over the world attended the meeting as well as representatives from different institutions having attitude to investors' compensation. The total number of the participants was more than 30. The discussions were held in several panels on the following topics:

### PECULIARITIES IN THE ACTIVITIES OF SOME INVESTOR COMPENSATION SCHEMES

Representatives from each scheme made short presentations on their activities. Information on the creation of the schemes, their management, funding and cases of compensation payments was mainly presented. The presentations of the Canadian, Japanese, Chinese, Korean, and the American Fund as well as the newly created scheme from Croatia were of high interest.

***The Canadian scheme*** presented interesting information on a new way for additional funding – through a contract with an insurance company that is engaged to provide compensation payments in cases when they are beyond a definite amount (110 million Canadian dollars).

***The Japanese Fund*** for investor protection was created in 1998 and provides 100% protection of the claim but not more than 100 000 USD as both retail clients and corporations are protected. It was evident from the

presentation that there have been six failures in the last five years in Japan and 1,73 million USD were paid.

The limit of compensation in Korea is approximately 50 thousand USD as the peculiarity is that compensation is not paid in cases of fraud.

***The Korean Fund*** plans the implementation of risk weighed contributions since 2014. There was a representative from the ***Spanish Fund***, created in 2002, attending for the first time on the EFDI meetings. Spain is one of the European countries providing a higher limit of compensation (100 thousand EUR). Recently, there has been one case of compensation payments which was approximately for the amount of 800 thousand EUR.

***The American scheme*** was presented by its president who shared curious facts about some of the biggest cases of compensation payments in the world. The American scheme being the oldest investor protection scheme together with the Canadian one provides compensation up to 500 thousand

USD for the financial instruments and 250 thousand USD for the clients' funds. The scheme has paid out approximately 1,6 billion USD since the beginning of the crisis and its participants are about 4 500. After the failure of *Bernard Madoff's* company the scheme aimed to achieve available resources of 2,5 billion USD, by raising 400 million USD each year. In the last 5 years the scheme confronted 2 of the biggest recent failures – *Lehman Brothers* and *Madoff*. What differs the American scheme from the others is that it appoints liquidators of the failed company. The procedure itself regarding the choice and the appointment of the liquidator is very quick, which aims at preventing panic and distrust among the investors. Regarding the American scheme almost the whole process on the compensation payments is performed by external companies.

### **BAD INVESTMENT ADVICE**

*Mr. Alex Kuchinski*, Director Corporate Clients in the British Fund made a presentation on the so called "*bad investment advice*", which was proposed by the EC to be included in the list of the protected investment services by the scheme. The majority of the compensation payments by the British scheme are due to providing bad investment advice which in essence is incorrect guiding of a certain client to taking a too risky investment without being entirely acquainted with the risk.

### **MAIN PRINCIPLES OF THE INVESTOR COMPENSATION SCHEMES**

The head of the newly created working group presented the *Main Principles for the Investor Compensation Scheme*. That working group was created within the framework of the working meeting held in Helsinki at the end of 2011. Similar to the deposit insurance schemes principles for the activities of investor compensation schemes were foreseen to be adopted. Additionally, the Principles are expected to be finalized and adopted as an official document until the next annual EFDI meeting that is going to take place in Bucharest.

### **SINGLE CUSTOMER VIEW**

*Single customer view* approach is applied by the deposit insurance schemes and it provides possibility in a short period to get information on the net exposure of one bank to one client.

That information is of significant importance for the quick estimation and compensation payments. *Mr. Olaf Hartenfelds*, representative of the liquidators, dealing with the bank insolvency in Germany, commented the eventual application of that approach also by investment companies, which is going to contribute to optimizing the activities of investor compensation schemes.

## AMENDMENT IN THE EUROPEAN DIRECTIVE ON INVESTOR COMPENSATION SCHEMES

During the meeting information on the amendments in the Investor Compensation Directive was presented. Those amendments were initiated in 2009 and they were reflected in the EC proposal as of July 2010. It was announced that the discussions are ceased until the adoption of the amendments in the Deposit Insurance Directive.

## TARGETING THE AVAILABLE FUNDS OF THE SCHEMES

The majority of the European schemes do not use an approach for calculation of the contributions that is related with the potential compensation payments. During the meeting an approach for short-term and long-term funding of the schemes related to the exposure of one scheme to its participants was presented. The model is based on the risk that each scheme aims to guarantee. The implementation of risk-based premiums which is in progress in some European countries expands and tying the size of the contributions with the potential compensation payments is the next step in achieving more adequate level of scheme's funding.

## AUDIT OF THE EUROPEAN FINANCIAL INSTITUTIONS

*Dr. Harald Hoak*, member of the European Council of Auditors, presented problems related with the audit of the European financial institutions. The topic on the single European financial market and the issues related to its achievement regarding the harmonization of the regulatory scheme with all its structures and elements was discussed. Attention was also paid to the issue about the single guarantee fund and its functioning in practice.