1. Basic Information

1.1 CRIS Number: BG 2005/017-353.02.01
1.2 Title: Strengthening of the administrative capacity of the Financial Supervision Commission to implement the acquis in the field of securities, pension and insurance
1.3 Sector: Internal Market and Economic Criteria
1.4 Location: Bulgaria, Sofia
1.5 Duration: 24 months
   Year/phase 1 – 2004
   Year/phase 2 - 2005

2. Objectives

2.1 Overall Objective(s):
Preparation of the Bulgarian non-banking financial sector for its accession to the Single European Market of financial services.

2.2 Project purpose:
Strong and efficient supervisory and regulatory framework for the operation of the non-banking financial sector at the level of the EU standards.

2.3 Accession Partnership (AP) and NPAA priority (and implementing measures envisaged by the Action Plan for AP priorities related to strengthening administrative and judicial capacity)
Accession Partnership (2003) priority:
Economic Criteria - Developing financial intermediation and the non-banking financial sector
Freedom to provide services - Fully align legislation on financial services with the acquis, including with the new Directives or Regulations adopted as part of the Financial Services Action Plan. Pursue the strengthening and independence of the financial supervisory bodies. Transpose furthers the acquis in the field of insurance services.

2.4 Contribution to National Development Plan (and/or Structural Funds Development Plan/SDP)
N.a.

2.5 Cross Border Impact
N.a.
3. Description

3.1 Background and justification:

Following the negotiations with the EU on Chapter 3 “Freedom to Provide Services”, Republic of Bulgaria has committed itself to harmonize its legislation with the relevant European regulations referring to the financial markets. The European Commission has estimated in its Regular Report 2003 that most of the Acquis on insurance remains to be transposed and the Acquis on securities should be completed. The newly established Financial Supervision Commission - FSC (operational since March, 2003), which is the Bulgarian non-banking financial regulator and supervisor, is the responsible institution for the introduction and implementation of this part of the Acquis.

Although the efficiency of the non-banking financial supervision has been significantly improved with the establishment of the new FSC, the remaining 3 years till accession (assuming accession to the EU in January 2007) are to be critical for the implementation of EU acquis in this area where substantial legislative work is to be done. At the same time, in its continuous attempts to implement the EU practices, the Bulgarian non-banking financial market regulator should handle problems typical for the early stages of life, like lack of experience, insufficient coordination between its different departments, lack of trained personnel, poor database, unfamiliarity with the good international practices, lack of public and business awareness of the accession process and the changes that are to be done on the financial market.

In addition to the insufficient administrative capacity to introduce and implement the Acquis, the FSC lacks modern technologies and information infrastructure. As a result, FSC’s supervisory practices are far behind the risk-based approach that is being implemented worldwide and that is designed to protect not only the clients and the shareholders of one financial company but the whole financial system. The underdeveloped information system of the FSC is a major obstacle for efficient and effective supervision. At the same time, the insufficient resources for investments and for attracting qualified IT staff will prevent the FSC to deal with this problem on its own.

Following the peer review visit to Bulgaria in the financial services sector, which took place from 18 to 22 November 2002, a report has been drafted by the team of experts and has been approved by a wider group of financial services supervisors from the Member States. The report contains number of specific recommendations as regards steps to be taken by Bulgaria to bring the supervisory standards more closely into line with best international practice. Many of the Peer Review Report recommendations have been accomplished by the FSC. However, substantial work remains to be done, as it is confirmed in the report of the Follow-up Peer Review held on 1-5 December 2003. The recommendations that have not yet been implemented refer to the strengthening of FSC’s staff resources, including the use of overseas assistance for training and consultations, strengthening of Commission’s enforcement powers through training the staff to select the most appropriate cases, training in EU legislation on compensation schemes for investors, implementation of the legislation relating to insider trading and market abuse, upgrade of the IT system, introduction of risk-based approach to determine the frequency and the focus of inspections, further education of company directors, managers, investment intermediaries etc.
The experts of FSC prepared an “Action Plan”, which set out the practical steps needed for the recommendations to be implemented, together with a timetable for their implementation. However, in order to implement the Action Plan the FSC will need technical and investment assistance. A Phare funded project appears to be an opportunity for the FSC to succeed in accomplishing its accession obligations till 2007 and its duties, once it becomes regulatory and supervisory authority on the Single European Market for services. According to the Regular Report 2004 as regards the remaining areas within the field of financial services, the progress recorded in alignment with the *acquis* on insurance should continue, as significant parts of the *acquis* remain to be transposed. The transposition of the *acquis* on securities and investment services and UCITS still requires significant progress.

### 3.2 Sectoral rationale

N.a.

#### 3.2.1. Identification of projects

N.a.

#### 3.2.2. Sequencing

N.a.

### 3.3 Results:

The specific results pursued by the current project are:

**Sub-project 1. Twinning – institution building:**

The twinning component is expected to complete the following results:

- Bulgarian legislation relating to securities, insurance and pension is harmonized with the EU legislation;
- The FSC has appropriate mechanisms to further develop, enforce and implement EU compliant national policy in the non-banking financial sector;
- The staff of the FSC is trained to implement EU compliant financial market legislation, and best practices;
- FSC has enough capacity to participate actively in the work of the international regulators’ organisations, incl. the Committee of European Securities Regulators;
- FSC has appropriate mechanisms to exchange information and assist in other ways Member State’s supervisory authorities;
- The business and the public are aware of and convinced in the need of the changes on the market that will result from the accession process

**Sub-project 2. Investment support:**

By the end of the project FSC expects to have complete and reliable information system (software and hardware) for supervised entities data accumulation, market surveillance and risk-based supervision. The project is expected to have the following results:

1. Full multifunctional database with FSC’s records created
2. Portal built as a medium for supervised entities information disclosure
3. System for analysis and control of financial data, risk assessment with statistical application introduced
4. IT staff trained to manage the new systems

### 3.4 Activities:
Sub-project 1. Twinning – institution building:
- Review of the regulatory background of the financial market and assessment of the status of harmonization with EU requirements;
- Writing legal texts (as defined in Annex 6) (i.e. expert guidance, instructions giving and assistance in drafting legal acts and regulations on financing matters to the competent FSC staff.)
- Drafting of instructions to the supervised entities and the respective authorities meant for their complying with the implemented EU legislation;
- Organization of workshops and seminars for the business on the new regulations;
- Organisation of seminars and educational campaigns for the public (particularly for students) on EU standards and legal framework, incl. producing TV and radio programmes;
- Analysis of the FSC staff skills and qualification and conducting respective training programme, focused on the EU financial market regulations and their implementation;
- Training of FSC staff responsible for drafting regulations in securities and insurance (incl. pension) in Community law, including through internships in EU member state institutions1;
- Drafting and implementing of a program to promote regional and international cooperation in the field of financial market supervision,
- Organising international forums, in particular meetings of the Capital Markets Consultative Group;
- Preparing and signing of Memoranda of Understanding with partner supervisory authorities;
- Methodological assistance for the Memoranda of Understanding implementation, including staff training.

Sub-project 2 – Investment support:

1. Development of multifunctional database comprising the following sub-activities:
   1.1. Purchase of hardware equipment, software and licenses.
   1.2. Set up of Groupware/Workflow System designed to allow the collective use and the process of documents. The System architecture will be consisting of the following elements:
      1.2.1. Templates Data Base (TDB) keeping standard forms, applications and definitions;
      1.2.2. Documents Data Base (DDB) for sorting and organization, tracking and use of electronic documents, applications, rules, permits, version control;
      1.2.3. Document Registration System (DRS) for registration of incoming and outgoing documents;
      1.2.4. Optical archive (Storage I) to store the electronic data.

1 The different background, expertise and level of responsibilities of the law and enforcement officers coming from the three different agencies that merged within the FSC create tremendous obstacles for the process of regulations drafting. Simple educational courses attended by single staff members add little value to the overall level of expertise. Therefore, the current project addresses the necessity of specialized long-term training campaign for all staff involved in particular activity and practical training in the Member State institutions
1.3 Set up of a Financial Management System (FMS) that is going to integrate the Accounting, the Human Resource and Management IT Systems;
1.4. Establishment of an archive (Storage II) to keep data for IT System maintenance. It will be comprising back-up and recovery tools and management and administrative tools.

2. Building-up of a portal to serve as a medium for disclosure of information between supervised entities. The portal will be consisting of preparation and customization component, deployable administrative modules and web services presentation layer.

3. Establishment of a System for analysis and control of financial data, risk assessment and statistical application. The System will be made of two components:
3.1. Financial and Supervision Data Base (FSDB) meant for storing various financial reports and any other relevant data on the supervised entities and to provide analysis of the documents encompassed by item 3.1.2;
3.2. Reporting System (Data Warehouse) designed to process and provide analyses on the basis of the information stored in the FSDB including supervision over the Bulgarian Stock Exchange and the Central Depositary;

4. Technical training of the IT staff to operate with the newly created IT system.

3.5 Linked activities:

The project will build on findings and recommendations of two consecutive Phare projects carried out in the Insurance Supervision Directorate (later on transformed into Insurance Supervision Agency and now merged in the FSC) in 1998 and 1999, namely BG 9805-01-03-02/01 “Strengthening of the Insurance Supervision Directorate at the Ministry of Finance” and BG 99/IB/FI/06 a Twinning contract “Strengthening of the Insurance Supervision Directorate at the Ministry of Finance”. These projects were implemented at the very beginning of the existence of insurance supervisory and regulatory institution in Bulgaria. They focused on setting up of modern legislation in the insurance sector. Also the staff of the Insurance Supervision Directorate was familiarized with the basic concepts of the acquis in the field of insurance. The current project will develop the existing legislation and will target full harmonisation of this legislation with the acquis. Moreover, the staff will be trained how to implement this legislation and how to develop it.

Other projects carried on in the FSC’s predecessors:

- **State Securities Commission** (now merged in the FSC) was beneficiary in USAID-funded “Capital Markets Regulations Project”, realized by Financial Markets International, Inc.
- **Social Insurance Supervision Agency** (now merged in the FSC) is beneficiary in USAID-funded “Labor Market Project”, which is being realized by Carana Corporation.
- **FIRST Initiatives with contribution of the Emerging Markets Group - Strengthening of Supervisory Capacity of the FSC.** FIRST provides technical assistance grants to recipients in developing and transition countries for capacity building and policy development in the areas of financial sector regulation and supervision.
- **USAID Technical Assistance to Bulgarian Financial Sector.** The primary aim of the Financial Sector Integrity Project (FSIP) is to continue to strengthen the Bulgarian
financial sector institutions in managing the new risks. This project prepare the Strategy development for better integrated supervision capability of the non-bank financial sector using a risk based approach.

3.6 Lessons learned:

FSC is a new institution. Only the Insurance supervisors (now merged within the FSC) have previously had PHARE-funded project, but they represent only 15% of FSC’s staff.

The sustainability of project results under the previous PHARE 98 project for the Insurance Supervision Agency could not be ensured. The FSC will therefore pay due attention to ensuring the sustainability of the results under this project fiche.

4. Institutional Framework

As of March 1st, 2003 is in force the Law on the Financial Supervision Commission. Under it a Financial Supervision Commission (FSC) is established. The FSC is a specialized state body for regulation of and supervision over the activities of:

- the regulated securities markets,
- the Central Depositary,
- the investment intermediaries,
- the investment and management companies,
- the natural persons who directly execute transactions in securities and provide investment advice,
- the public companies and other securities issuers
- the insurers,
- the insurance brokers and insurance agents;
- the companies carrying out activities concerning the supplementary social insurance, including the pension, and for unemployment and professional qualification, as well as of the managed by them funds.

As an administrative structure the FSC is a collective body and consists of seven members: chairman, three deputy chairmen and three other members. The total number of the Commission’s staff on the pay-roll is 203, allocated in divisions. Three main divisions have been set up in the FSC – “Investment Supervision”, “Insurance Supervision” and “Social Insurance Supervision”, each being directly led by a deputy chairman of the Commission.

The FSC, in the fulfillment of its powers, is independent of the executive power and reports on its activities under this Law to the Parliament. It is funded partly by taxes from the business and partly by the state budget. FSC has a separate budget, which makes part of the consolidated government budget. It is voted by the parliament and the government (through the Ministry of finance) can only give opinion on it.
5. Detailed Budget (in M€)

<table>
<thead>
<tr>
<th>Year 2004 Phase 1</th>
<th>Phare Support</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Investment Support</td>
<td>Institution Building</td>
</tr>
<tr>
<td>Contract 1-Twinning</td>
<td>-</td>
<td>1.3</td>
</tr>
<tr>
<td>Total</td>
<td>-</td>
<td>1.3</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year 2005 Phase 2</th>
<th>Phare/Pre-Accession Instrument support</th>
<th>Co-financing</th>
<th>Total Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>€M</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment support jointly co funded</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Project 1</td>
<td>0.525</td>
<td>0.175</td>
<td>-</td>
</tr>
<tr>
<td>Investment support – sub-total</td>
<td>0.525</td>
<td>0.175</td>
<td>-</td>
</tr>
<tr>
<td>% of total public funds</td>
<td>max 75 %</td>
<td>min 25 %</td>
<td></td>
</tr>
</tbody>
</table>

In case of parallel co-funding (per exception to the normal rule, see special condition as indicated below: Not applicable)

<table>
<thead>
<tr>
<th>Year 2005 Institution Building support</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>Sub-project 1, etc…</td>
<td>N/A</td>
</tr>
<tr>
<td>IB support</td>
<td>N/A</td>
</tr>
</tbody>
</table>

| Total project 2005 | 0.525 | 0.175 | | 0.175 | 0.7 |

(*) contributions form National, Regional, Local, Municipal authorities, FIs loans to public entities, funds from public enterprises
(**) private funds, FIs loans to private entities
6. Implementation Arrangements

6.1 Implementing agency:
The Implementing Agency for this project will be the Central Finance and Contracts Unit (CFCU) at the Ministry of Finance. The CFCU will be responsible for the tendering, contracting and payment activities under the project.

Contact details:
Mr. Vladimir Valchev  
CFCU Director  
102, Rakovski str., 1040 Sofia, Bulgaria  
Tel: +359 2 9859 2772, 359 2 9859 2777  
Fax: +359 2 9859 2773

Programme Authorising Officer (PAO):  
Mr. Tencho Popov  
Secretary General of the Ministry of Finance  
102, Rakovski str., 1040 Sofia, Bulgaria  
Tel.: + 359.2.9859 2012  
Fax: +359.2.987 3929

The Beneficiary will be responsible for preparing the Technical Specifications and the Terms of Reference for each of the contracts under the project.

The FSC Project Implementation Unit (PIU) will be the main contact point for all official communications between the Consultant and the FSC concerning the implementation and management of the project.

The contact persons for the project are:

✔ Mrs. Nina Koltchakova - Director “International Co-operation and public relations”, Financial Supervision Commission, Sofia 1000, 6 Sv. Nedelja Sq., tel: +359 2 94 04 601, fax: +359 2 980 69 54, e-mail: koltchakova_n@fsc.bg,
✔ Mrs. Nadya Velinova - Head of International Co-operation Department, Financial Supervision Commission, Sofia 1000, 6 Sv. Nedelja Sq., tel: +359 2 94 04 771, fax: +359 2 980 69 54, e-mail: velinova_n@fsc.bg
✔ Mr Roumen Nikolov – Director “Information Technologies and Registars”, Financial Supervision Commission, Sofia 1000, 6 Sv. Nedelja Sq., tel: +359 2 94 04 790, fax: +359 2 980 69 54, e-mail: nikolov_r@fsc.bg – contact person only for IT matters
✔ Mrs Mariela Nikolova – Expert, Financial Supervision Commission, 1000 Sofia, 6 Sv. Nedelya Sq., tel.: + 359 2 9404 551, fax: +359 2 980 69 54, email – nikolova_m@fsc.bg

6.2 Twinning

Contract 1 for 2004 will be carried out through a twinning arrangement between a financial supervisory body of one or more EU member states and the Financial Supervision Commission as beneficiary institution.
All Twinning components will include a Member State Project Leader, who continues to work in his/her Member State administration but who devotes some of his/her time to conceiving, supervising and co-ordinating the overall implementation of the project. She/he will be complemented by at least one full-time expert - a Pre-Accession Advisor (PAA), from a Member State to work on a day-to-day basis with the beneficiary and accompany the implementation of the twinning project. The stay of the PAA is foreseen to be at least 21 months.

PAA Profile:
- High level official from an institution in a Member State, responsible for financial markets regulation and supervision (at least 7 years of experience);
- Relevant education or experience in business administration;
- Familiar with EU legislative process, regulatory system and cooperation practices at EU level;
- Experienced in implementation of EU Phare Programme;
- Fluent in English.

Short Term EU Experts:
- The team will include specialist advisors to support the relevant activities of the Project.
- Language proficiency: Fluency in English;

Short Term Local Experts:
- Team for technical, administrative, judicial and financial and information support in all main activities of the project.
- Language proficiency: Fluency in English;

Local Support Staff:
- Staff to assist the PAA and project team on site for the entire duration of the project providing general project support, perform necessary administrative and secretarial duties, as well as translation between Bulgarian English for project related documentation and ad-hoc interpretation as necessary during the meetings.

Project Leader from the side of the beneficiary, responsible for the substance and the progress of the project will be the Chairman of the FSC. The FSC will also establish special organizational structure for the technical management and monitoring of the project, which comprises the Project Leader, a Steering Committee, a Programme Implementation Unit (PIU) and dedicated Project Implementation Team.

The Project Steering Committee (PSC) will be established for the strategic management of the project. The PSC will be a policy and decision making body. The main functions of the PSC will be as follows:
- providing guidance for the different phases of the project
- approval of the progress reports that concern the overall implementation on a quarterly basis;
- recommendations for the improvement of the project implementation;
- counseling on problem issues;

The Project Steering Committee will be chaired by the Chairman of the FSC and will include representatives of the Investment supervision division at the FSC, Insurance supervision
division at the FSC, Social insurance supervision division at the FSC, International co-
operations and public relations directorate at the FSC, Information technologies directorate at
the FSC, Human resources directorate at the FSC and the Chief accountant of the FSC,
National Fund directorate at the Ministry of Finance, CFCU, European integration and
relations with the international financial institutions directorate at the Council of Ministers.
Representatives of the EC Delegation and of the Management of the EU Funds Directorate at
the Ministry of Finance will participate at the PSC as observers. The Steering Committee will
meet on a regular basis or in force majeure situation. When important matters are to be
concerned the chairman or 2/3 of the PSC members could convene the PSC for a meeting.
The PSC will take its decisions with simple majority.

The PIU will carry out the day-to-day management of the project. Its role will be to
administer and resolve all issues, concerned with the management of the project, including
participation in the planning and identification of tasks, reporting, coordination of the work on
the preparation of Terms of Reference, and participation in tendering, monitoring and
evaluation of the activities.

6.3 Non-standard aspects
No non-standard aspects are foreseen

6.4 Contracts

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of contracts</th>
<th>Value in €</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year 1 -2004</td>
<td>Contract 1 – Twinning contract</td>
<td>1.3 m</td>
</tr>
<tr>
<td>Year 2 -2005</td>
<td>Contract 1 – Supply contract</td>
<td>0.7 m</td>
</tr>
<tr>
<td>Total - two years</td>
<td>2 contracts</td>
<td>2.0 m</td>
</tr>
</tbody>
</table>

7. Implementation Schedule

7.1 Start of tendering/call for proposals
Twinning contract– first quarter 2005
Investment supply – first quarter 2006
As defined in Annex 2

7.2 Start of project activity
Twinning contract – second quarter 2005
Investment supply - third quarter 2006

7.3 Project completion
Twinning contract– last quarter 2006
Investment supply - second quarter 2007

8. Equal Opportunity
Men and women will have an equal opportunity to participate in all phases of the project’s
implementation. The assessment of all, men and women, would be in conformity with FSC’s
procedures for assessment of the staff performance that are uniform for all the personnel.
9. Environment
The project will not have any environmental effects.

10. Rates of return
N.a.

11. Investment criteria

11.1 Catalytic effect:
The availability and the operation of a developed financial market and supervisory authority is an important prerequisite for the attraction of foreign investments in the country and for our quicker integration in the world economy, including our accession to the European Union. In the absence of Phare funding the project would not have been possible or would have been considerably delayed. Such delay would have negative effect on Bulgaria’s accession schedule.

11.2. Co-financing:
National budget will finance 25% of the investment component for year 2005.

11.3 Additionality:
N.a.

11.4 Project readiness and size:
Upon approval of the proposed project, the preparation will start of the terms of reference for the specific contracts. Twinning partner and investment contract provider will be selected through a tender.

A feasibility study assessing the IT needs of the FSC has been drafted by an independent expert working under a FIRST Initiative\(^1\) engagement. This very assessment has been attached to the present project fiche. The total value of the investment support for this project is EUR 0.7mn. PHARE funding for the investment contract is EUR 0.525 mn.

11.5 Sustainability:
The project activities are in line with EU sector policy acquis. The Financial Supervision Commission is in a position to effectively sustain the project deliverables and maintain the delivered equipment in the long run. All supported investment actions are sustainable in the long term beyond the date of accession. They comply with EU norms and standards.

11.6 Compliance with state aids provisions
N.a.

12. Conditionality and sequencing

\(^1\) The Financial Sector Reform and Strengthening (FIRST) Initiative is a donor programme, supporting capacity building and policy development projects in the financial sectors in developing countries. FIRST provides technical assistance grants for short and medium-term projects in the areas of financial sector regulation, supervision and development.
The successful implementation of the project requires the full commitment of the FSC members and staff. FSC management will provide full support to facilitate the work of the outside consultants and experts, working for the Phare program. The project would require additional staff to be involved in its management.

Technical specifications for the supply component will be drafted with the support of the Project Preparation Facility (PPF), together with IT experts from the Financial Supervision Commission. An independent expert for the tender evaluation will also be provided under the same PPF contract.

**ANNEXES TO PROJECT FICHE**

1. Logframe in standard format
2. Detailed implementation chart
3. Contracting and disbursement schedule, by quarter, for full duration of project
4. IT needs assessment and Statement of the Chairman of FSC
5. List of relevant laws and regulations
### ANNEX 1. Logical framework matrix

**Phare log frame**

<table>
<thead>
<tr>
<th>LOGFRAME PLANNING MATRIX FOR Project</th>
<th>Programme name and number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strengthening of the administrative capacity of the Financial Supervision Commission to implement the acquis in the field of securities, pension and insurance</td>
<td>Contracting period expires year 2 - 30.11.2007</td>
</tr>
<tr>
<td></td>
<td>Disbursement period expires: year 2 – 30.11.2008</td>
</tr>
<tr>
<td></td>
<td>Total budget year 2 : € 0.7 m</td>
</tr>
<tr>
<td></td>
<td>Phare budget year 2: € 0.525 m</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Overall objective</th>
<th>Objectively verifiable indicators</th>
<th>Sources of Verification</th>
</tr>
</thead>
</table>
| Preparation of the Bulgarian non-banking financial sector for its accession to the Single European Market of financial services. | - Share of the capital market in the GDP exceeds 10%  
- Share of the pension funds assets in the GDP exceeds 2.5%  
- Insurance penetration exceeds 2.5% | - EC review and reports  
- trade statistics  
- National Statistical Institute  
- Stock Exchange Bulletin  
- FSC Annual Report |

<table>
<thead>
<tr>
<th>Project purpose</th>
<th>Objectively verifiable indicators</th>
<th>Sources of Verification</th>
</tr>
</thead>
</table>
| Strong and efficient supervisory and regulatory framework for the operation of the non-banking financial sector at the level of the EU standards. | - Increased number of the financial market participants;  
- Remainder of Acquis in Freedom to Provide Services and Free movement of capital  
- Easier access to the information  
- Progress of the pre-accession negotiation with EU concerning Chapters 3 and 4 | - State Gazette  
- Assessment of the administrative capacity  
- Monitoring by delegation – EC reports  
- Report from IT Directorate for use of information  
- Annual Report of the FSC  
- FSAP  
- Assessment of the Implementation of the IOSCO Objectives and Principles |

<table>
<thead>
<tr>
<th>Assumptions</th>
</tr>
</thead>
</table>
| - Long-term guarantees for high administrative capacity of the FSC  
- Output relevant to financial market needs |
<table>
<thead>
<tr>
<th>Results</th>
<th>Objectively verifiable indicators</th>
<th>Sources of Verification</th>
<th>Assumptions</th>
</tr>
</thead>
</table>
| **Sub-project 1. Twinning – institution building:** | - Number of legislative acts developed  
- Number of staff trained  
- Number of Memoranda of Understanding (MOU) signed  
- FSC joins IOSCO (International Organization of Securities commissions) MOU  
- FSC joins CESR as observer | - State Gazette  
- Regular reports of EC  
- Bulgarian Financial Services review Report by EC  
- Annual report of FSC  
- Monitoring by delegation  
- Assessment of the administrative capacity  
- FSC’s public register | - A number of strengths already exist in the area, like institutional regulatory and market infrastructure;  
- FSC’s powers in accomplishing its functions will increase, pursuant from the new legislation  
- Certain financial offences will be incriminated and the efficiency of the judiciary system will increase following the implementation of the Acquis in the field of Judiciary;  
- Changes in economic environment will not prejudice implementation;  
- New staff will join the FSC |
| **Sub-project 2. Investment support:** | - Group/Workflow system set up by September 2006  
- Financial Management System set up by December 2006  
- IT System maintenance (Storage II) established by September 2006 | | |
| | - Full multifunctional database with FSC’s records created;  
- Portal built as a medium for supervised entities information disclosure;  
- System for analysis and control of financial data, risk assessment with statistical application introduced;  
- IT staff trained to manage the new | | |

- Bulgarian legislation relating to securities, insurance and pension is harmonized with the EU legislation;  
- The FSC has appropriate mechanisms to further develop, enforce and implement EU compliant national policy in the non-banking financial sector;  
- The staff of the FSC is trained to implement EU compliant financial market legislation, and best practices;  
- FSC has enough capacity to participate actively in the work of the international regulators’ organisations, incl. CESR;  
- FSC has appropriate mechanisms to exchange information and assist in other ways Member State’s supervisory authorities;  
- The business and the public are aware of and convinced in the need of the changes on the market that will result from the accession process
- A portal built up by March 2007
- System for analysis and control of financial data, risk assessment established by December 2006
- 40 FSC officers trained to manage the new system
- Inspections increased by 30% (base end 2003)

<table>
<thead>
<tr>
<th>Activities</th>
<th>Means</th>
<th>Assumptions</th>
</tr>
</thead>
</table>
| **Sub-project 1. Twinning – institution building:** | Twinning contract | - Strict monitoring over the implementation of the project
- Effective co-operation with other institution, incl. Bulgarian National Bank, Chief Prosecutor’s Office, etc.
- Provided know-how and expertise by the twinning partner will be of high quality
- Commitment of FSC’s management to the project goals
- Successful voting by the Parliament of new legislation |

- Review of the regulatory background of the financial market and assessment of the status of harmonization with EU requirements;
- Writing legal texts (as defined in Annex 6);
- Preparing instructions for the implementation of the EU legislation;
- Organization of workshops and seminars for the business on the new regulations;
- Organisation of seminars and educational campaigns for the public on EU standards and legal framework;
- Analysis of the FSC staff skills and qualification and conducting respective training programme, focused on the EU financial market regulations and their implementation;
- Training of FSC staff responsible for drafting regulations in securities and insurance (incl. pension) in Community law, including through internships in EU member state institutions;
- Drafting and implementing of a program to promote regional and international
cooperation in the field of financial market supervision,
- Organising international forums, in particular meetings of the Capital Markets Consultative Group;
- Preparing and signing of MoUs (memoranda of Understanding) with partner supervisory authorities;
- Methodological assistance for the MoUs implementation, including staff training

**Sub-project 2 – Investment support:**
1. Development of multifunctional database comprising the following sub-activities:
   1.1. Purchase of hardware equipment, software and licenses.
   1.2. Set up of Groupware/Workflow System designed to allow the collective use and the process of documents. The System architecture will be consisting of the following elements:
      1.2.1. Templates Data Base (TDB) keeping standard forms, applications and definitions;
      1.2.2. Documents Data Base (DDB) for sorting and organization, tracking and use of electronic documents, applications, rules, permits, version control;
      1.2.3. Document Registration System (DRS) for registration of incoming and outgoing documents;
      1.2.4. Optical archive (Storage I) to store the electronic data.
   1.3. Set up of a Financial Management System (FMS) that is going to integrate the Accounting, the Human Resource and

Supply contract
Management IT Systems:
1.4. Establishment of an archive (Storage II) to keep data for IT System maintenance. It will be comprising back-up and recovery tools and management and administrative tools.

2. Building-up of a portal to serve as a medium for disclosure of information between supervised entities. The portal will be consisting of preparation and customization component, deployable administrative modules and web services presentation layer.

3. Establishment of a System for analysis and control of financial data, risk assessment and statistical application. The System will be made of two components:
   3.1. Financial and Supervision Data Base (FSDB) meant for storing various financial reports and any other relevant data on the supervised entities and to provide analysis of the documents encompassed by item 3.1.2;
   3.2. Reporting System (Data Warehouse) designed to process and provide analyses on the basis of the information stored in the FSDB including supervision over the Bulgarian Stock Exchange and the Central Depositary;

4. Training of the staff to operate with the newly created IT system.

<table>
<thead>
<tr>
<th>Preconditions</th>
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</table>
### ANNEX 2
### DETAILED IMPLEMENTATION CHART

#### Contract NAME

<table>
<thead>
<tr>
<th>Year</th>
<th>Activity Description</th>
<th>Q1</th>
<th>Q2</th>
<th>Q3</th>
<th>Q4</th>
<th>Q1</th>
<th>Q2</th>
<th>Q3</th>
<th>Q4</th>
<th>Q1</th>
<th>Q2</th>
<th>Q3</th>
<th>Q4</th>
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<tbody>
<tr>
<td>2004</td>
<td>Twinning:</td>
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<tr>
<td></td>
<td>Selection of twinning partner</td>
<td>PAA</td>
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<td></td>
<td>Experts for review of regulatory background</td>
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<td></td>
<td>Experts for legislation drafting and instructions preparation</td>
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<td></td>
<td>Seminaries for the business</td>
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<td></td>
<td>Training for the staff on the new regulations implementation</td>
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<td>Drafting of guidelines in EU standard procedures</td>
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<td></td>
<td>Training for the staff on regulations drafting and transposition, workshops and study visits</td>
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<td></td>
<td>Producing TV and radio programmes</td>
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<td></td>
<td>Organising training courses for students</td>
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<td></td>
<td>Expert in international co-operation practices and common investigations, MoU drafting, staff training</td>
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<td></td>
<td>Implementation of a programme for regional co-operation, international forums organisation</td>
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<td>2005</td>
<td>Supply:</td>
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<td></td>
<td>Tendering for purchase of hardware equipment</td>
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<td></td>
<td>Set up of Groupware/Workflow System</td>
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<tr>
<td></td>
<td>Set up of a Financial Management System</td>
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<tr>
<td></td>
<td>Establishment of an archive (Storage II)</td>
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<tr>
<td></td>
<td>Building up of a Portal</td>
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<td></td>
<td>Establishment of a System for analysis and control of financial data, risk assessment and statistical application</td>
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<tr>
<td></td>
<td>Training of the FSC staff</td>
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</tbody>
</table>

- **T** Tendering
- **C** Contracting
- **I** Implementation
ANNEX 3. Contracting and disbursement schedule by quarter

1.1. Contracting and disbursement schedule by quarter for full duration of programme

**Project title**: Strengthening of the administrative capacity of the Financial Supervision Commission to implement the Acquis in the field of securities, pension and insurance

<table>
<thead>
<tr>
<th>Contracting</th>
<th>Cumulative contracting schedule by quarter in € m (provisional)</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2005 I II III IV</td>
<td>2006 I II III IV</td>
</tr>
<tr>
<td>Phase 1</td>
<td></td>
<td></td>
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<tr>
<td>Contract under Twinning Component</td>
<td>1.30 1.30 1.30 1.30</td>
<td>1.30 1.30 1.30 1.30</td>
</tr>
<tr>
<td><strong>Total contracting</strong></td>
<td></td>
<td></td>
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<tr>
<td>Phase 2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contract under Supply Component</td>
<td>0.70 0.70 0.70 0.70</td>
<td>0.70 0.70 0.70 0.70</td>
</tr>
<tr>
<td><strong>Total contracting</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Disbursement</th>
<th>Cumulative disbursement schedule by quarter in € m (provisional)</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2005 I II III IV</td>
<td>2006 I II III IV</td>
</tr>
<tr>
<td>Phase 1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contract under Twinning Component</td>
<td>0.78 0.78 1.17 1.17</td>
<td>1.17 1.17 1.30 1.30</td>
</tr>
<tr>
<td><strong>Total disbursement</strong></td>
<td></td>
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</tr>
<tr>
<td>Phase 2</td>
<td></td>
<td></td>
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<tr>
<td>Contract under Supply Component</td>
<td>0.42 0.42 0.63 0.63</td>
<td>0.70 0.70 0.70 0.70</td>
</tr>
<tr>
<td><strong>Total disbursement</strong></td>
<td></td>
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</tbody>
</table>
Annex 4 - IT Needs Assessment and Statement

Attached to this fiche you can find an IT needs assessment that identifies all relevant activities, which are to be implemented under the investment component. The needs assessment has been designed by an outside consultant in accordance with the recommendations of the EU Commission and also includes an estimation of the costs of the activities. (see at p. 37 of the attachment)

Following the instructions given by the EU Commission on Phare Fiche No BG2004/016-711.02.02 FSC confirms herewith that all maintenance costs regarding the functioning of the established IT system with respect to the supply component, such as electricity costs, spare parts buying, maintenance services etc. will be covered by the Financial Supervision Commission.
## Annex 5 List of EU-Relevant Laws and Regulation

<table>
<thead>
<tr>
<th>EU Regulation</th>
<th>Harmonized Bulgarian Legislation</th>
<th>New Bulgarian Legislation to be prepared</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Securities</strong></td>
<td></td>
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<tr>
<td></td>
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<tr>
<td>Council Directive 82/121/EEC of 15 February 1982 on information to be published on a regular basis by companies the shares of which have been admitted to official stock-exchange listing</td>
<td>+ Ordinance 2 on the Prospectuses for Public Offering of Securities and the Information to be Disclosed by Public Companies and Other Issuers</td>
<td></td>
</tr>
<tr>
<td>Council Directive 88/627/EEC of 12 December 1988 on the information to be published when a major holding in a listed company is acquired or disposed of</td>
<td>+ Ordinance N1 on the Requirements Relating to Investment Intermediary Activities</td>
<td></td>
</tr>
<tr>
<td>Council Directive 89/298/EEC of 17 April 1989 coordinating the requirements for the drawing-up, scrutiny and distribution of the prospectus to be published when transferable securities are offered to the public</td>
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<tr>
<td>Ordinance</td>
<td>Description</td>
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<tr>
<td>Securities Ordinance on the Requirements Relating to Investment Company Activities</td>
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<tr>
<td>Securities Ordinance on the Requirements Relating to Management Company Activities</td>
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<tr>
<td>Securities Ordinance 11 on the Licenses for Acting as a Stock-Exchange, OTC, Investment Intermediary, Investment Company, Management Company and special purposes vehicles</td>
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</tr>
<tr>
<td>Securities Ordinance 2 on the Prospectuses for Public Offering of Securities and the Information to be Disclosed by Public Companies and Other Issuers</td>
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</tr>
<tr>
<td>Implementation of the Law on Public Offering of Securities in connecting with the establishment of UCITS under the law of contract (as common funds managed by management companies) or trust law (as unit trust) and UCITS single passport.</td>
<td></td>
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<tr>
<td>Draft Ordinance for the amendments of the Ordinance on the Requirements to the Investment Companies’ Activities</td>
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<tr>
<td>Draft Ordinance for the amendments of the Ordinance on the Requirements to the Management Companies’ Activities</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Ordinance</th>
<th>Description</th>
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<tbody>
<tr>
<td>Law on Public Offering of Securities</td>
<td></td>
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<tr>
<td>Ordinance N01 on the Requirements Relating to Investment Intermediary Activities</td>
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<tr>
<td>Ordinance N06 on Capital Adequacy and Liquidity of Investment Intermediary</td>
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<tr>
<td>Ordinance N07 on the requirements which must be met by natural persons who directly conduct transactions in securities and give investment advice on securities under a contract, and the procedure for acquisition and revocation.</td>
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<tr>
<td>Ordinance N11 on the Licenses for Acting as a Stock-Exchange, OTC, Investment Intermediary, Investment Company,</td>
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<tr>
<td>Ordinance 2 on the Prospectuses for Public Offering of Securities and the Information to be Disclosed by Public Companies and Other Issuers</td>
<td>Ordinance on the Admission Requirements for Official Stock Exchange Listing (incorporated in the Bulgarian Rule-Book of the Bulgarian Stock-Exchange-Sofia AD)</td>
</tr>
<tr>
<td>Ordinance on the disclosure of Major Holding in a Public or Investment Company</td>
<td>Ordinance on the disclosure of Major Holding in a Public or Investment Company</td>
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</table>


| Insurance |


Council Directive 77/92/EEC of 13 December 1976 on measures to facilitate the effective exercise of freedom of establishment and freedom to provide services in respect of the activities of insurance agents and brokers (ex ISIC Group 630) and, in particular, transitional measures in respect of those activities


Member States relating to insurance against civil liability in respect of the use of motor vehicles, and to the enforcement of the obligation to insure against such liability


provisions relating to direct insurance other than life assurance and amending Directives 73/239/EEC and 88/357/EEC (third non-life insurance Directive)


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### Pensions


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**List of the other acts and ordinances**

1. Law on the Financial Supervision Commission
2. Rules for the Organization and Operation of the Financial Supervision Commission

**Securities**

1. Law on Special Purpose Vehicles
2. Ordinance on Tender Offering for the Purchase and Exchange of Shares
3. Ordinance on the Disclosure of Major Holdings in Public and Investment Companies
4. Ordinance on the Conditions and Procedure of Filing in or Deletion of Public Companies, Other Issuers of Securities and Securities Issues in the Register of the Bulgarian National Securities Commission
5. Ordinance on the Central Depository of Securities

Insurance
1. Ordinance for Determent the Own Resources, Solvency Margin and Its Calculation By the Insurance and Health-insurance Companies
2. Ordinance Regulating the Procedures and Methods of Setting up Insurance and Health Insurance Reserves
3. Regulation on the Structure And Operation of The Guarantee Fund

Social Insurance
1. Ordinance N. 3 from 24.09.2003 on the Way And Procedure Of Participation and Transferring of the Accumulated Funds of the Insured Person from One Supplementary Pension Insurance Fund to Another Respective Fund, Managed by Another Pension Insurance Company.
2. Regulation on the method of investment abroad of pension company and supplementary pension fund assets
3. Regulation on the Activities of the Supplementary Social Insurance Council
4. Regulation on the Rights and Obligations of the Supervisory Councils of the Funds for Supplementary Mandatory Pension Insurance
5. Regulation on the Methods and Procedures for Valuation of Pension Fund and Pension Insurance Company Assets
6. Regulation on the Capital Structure and the Ratio between the Balance Sheet Assets and Liabilities of Pension Insurance Companies, the Conditions for Loan Taking and for Maintenance of Minimum Liquid Funds by Pension Insurance Companies and Supplementary Pension Funds
7. Regulation on the Terms and Procedures for Transformation of Pension Insurance Companies, Voluntary Pension Funds and Supplementary Mandatory Pension Insurance Funds
8. Regulation on the Conditions and Procedures for Creating an Investment Voucher Guarantee Fund with the Pension Insurance Company’s Own Capital.
9. Regulation on Creating a Pension Reserve for Universal Pension Funds.
10. Regulation on the Terms, Methods, and Procedures for Participation of Voluntary Pension Funds in Privatization with Investment Vouchers

The Financial Supervision Commission is not included in any Government Strategic plans and studies.