

## BANK SUPERVISION AND RESOLUTION WITHIN THE SINGLE SUPERVISORY MECHANISM AND THE SINGLE RESOLUTION MECHANISM



**Radoslav Milenkov**  
BNB Deputy Governor in charge of  
the Banking Supervision Department

As of 1 October 2020, Bulgaria joined the Single Supervisory Mechanism (SSM) by establishing close cooperation between the Bulgarian National Bank (BNB) and the European Central Bank (ECB). The accession to the SSM comes as a result of Decision (EU) 2020/1015, made by the ECB on 24 June 2020.

With its accession to the SSM, Bulgaria also joined the Single Resolution Mechanism (SRM).



**Kalin Hristov**  
BNB Deputy Governor  
in charge of the Issue Department

The SSM and the SRM are the two currently operating blocks of the so-called Banking Union in the euro area. Accession to the Banking Union was a precondition for the inclusion of the Bulgarian Lev into the Exchange Rate Mechanism (ERM II).

### *1. Participation in the Single Supervisory Mechanism*

The SSM is the name of the banking supervision system in the euro area. It comprises the ECB and the national supervisory authorities of participating Member States. Applicable to Member States outside the euro area is the so-called regime of close cooperation between the relevant national supervisory authority and the ECB – the mechanism established for Bulgaria. The main objectives of the SSM are to ensure the safety and soundness of the European banking system, to enhance financial integration and implementation of consistent supervision.

The ECB exercises banking supervision in cooperation with the national authorities by establishing a common approach to ongoing supervision, pursuing harmonized supervisory activities and corrective measures and ensuring consistent implementation of regulations and supervisory policies. The ECB has the powers to conduct supervisory review, on-site inspections and investigations, to issue or withdraw banking licenses, to assess the acquisition and disposal of qualified holdings by banks, to ensure compliance with the EU prudential rules, to set higher capital requirements (buffers) to counteract possible financial risks. The supervisory functions of the ECB are exercised by its Supervisory Board. By a decision of the BNB Governing Council, Mr. Radoslav Milenkov, BNB Deputy Governor in charge of the Banking Supervision Department, is the

BNB's representative in the ECB's Supervisory Board, having the same rights and obligations as all other board members, including a voting right.

The ECB's Supervisory Board drafts the decisions that are later adopted by the ECB's Governing Council, following the so-called non-objection procedure. The ECB's Governing Council also adopts other decision on the SSM general framework, without applying the non-objection procedure. There is no Bulgarian representative in the ECB's Governing Council, as it consists of the members of the ECB's Executive Board and the governors of central banks of euro area Member States.

The ECB is responsible for the supervision of the institutions determined as significant in all aspects of their activities, including off-site supervision, on-site inspections, the so-called horizontal functions: supervisory methodology, assessment of models, licenses, assessment of reliability and suitability of banks' management board members. As Bulgaria is not a member of the euro area and the ECB's decisions have no legal force in the country, the BNB will issue individual administrative acts regarding the significant institutions upon a request by the ECB and in full compliance with it. For the purposes of direct supervision over the banks determined as significant, the BNB has appointed sub-coordinators, and representatives of Joint Supervisory Teams who are to take part in all stages of the supervisory process. The Joint Supervisory Teams are responsible for the overall assessment of the risk, stability and vulnerability of each of the significant credit institutions. They also determine the relevant supervisory measures, as needed, including additional capital requirements under Pillar 2 of Basel II. The Joint Supervisory Teams assess the adequacy of the internal ratings of capital and liquidity, and the risks to them, the recovery plans, and the adequacy of the business model and corporate governance of each bank. With regard to prudential supervision related policy issues, the BNB's representatives participate in other committees and structures assisting the ECB's work in relation to the tasks conferred to it under Regulation (EU) № 1024/2013.

The ECB is responsible for monitoring of less significant institutions and for the general procedures applicable to all credit institutions. Direct supervision over institutions classified as less significant is exercised by the BNB, but with full harmonization of the supervisory process with that of the ECB. The BNB complies with the guidelines and requests issued by the ECB and pursues the necessary measures for the implementation of the ECB's legal acts under Regulation (EU) № 1024/2013, including by issuing the necessary administrative acts. In this relation, the ECB exercises control over the implementation of all SSM guidelines and standards in the BNB's work, including with regard to the supervisory review and evaluation process and on-site supervisions. The ECB is conferred specific direct powers towards less significant institutions, in relation to the process of license issuance and revocation, approvals of acquisition and disposal of classified holdings in credit institutions, the issuance of general recommendations, guidelines and instructions, planning and carrying out of on-site inspections, including assuming at any given point in time of direct supervision over less significant institutions. For the purposes of supervision of

less significant banks, a structure has been set up with the ECB's SSM, in which the BNB participates. Within this structure, the issues of supervision over less significant institutions of the SSM participating Member States are discussed.

The participation in the Single Supervisory Mechanism also includes providing the ECB with all the information needed for the performance of the ECB's tasks, including information subject to banking and professional secrecy.

The ECB collects fees for conducting its supervisory activities and this principle will accordingly apply to the banks in Bulgaria.

## ***2. Participation in the Single Resolution Mechanism***

The participation in the SRM follows from the participation in the SSM.

The SRM extends to all banks that operate in the SSM participating Member States and has as its objective the application of effective and uniform resolution rules and equal resolution financing conditions within the Banking Union. This function is carried out by a specialised EU agency – the Single Resolution Board (SRB), which performs its tasks and exercises its powers in close cooperation with the national resolution authorities.

The SRB is a collegiate body composed of permanent (executive) members and one member designated by each participating Member State, representing its national resolution authorities. Subject to the nature of the issues to be addressed and resolved, SRB holds meetings in plenary session, executive session and extended executive session formats. The plenary session meetings are attended by the permanent members and all representatives of the participant Member States. Decisions in the plenary session are taken by a simple majority vote, each member having one voting right. The extended executive session meetings are attended by the SRB permanent members and the representatives of the participating Member States, where the banks, in respect of which the relevant decision is taken, are established. The decisions of the executive session, attended by the SRB permanent members, are adopted by consensus and where this is not possible – by simple majority of the votes of the SRB permanent members. By decision of the BNB Governing Council, Mr. Kalin Hristov, Deputy Governor in charge of the Issue Department, is designated as the BNB representative at the SRB with a voting right in the plenary session and with rights and obligations as all other non-executive members when participating in the SRB extended executive session.

The distribution of the functions and tasks between SRB and the national resolution authorities is in line with the distribution of the supervisory functions between the ECB and the supervisory authorities of the participating Member States. The SRB takes decisions on any matter concerning resolution planning and taking resolution actions with regard to the significant entities or groups falling under the ECB direct supervision and with respect to the cross-border groups within the Banking Union. In this process the national resolution authorities assist the SRB and following the decisions take the relevant actions or adopt their own decisions

for implementing the SRB decisions and guidance. For the purposes of the close cooperation, the BNB has designated its representatives as members of the Internal Resolution Teams, which are set up for each entity or group within the scope of the SRB direct powers. The Internal Resolution Teams assist the SRB in the performance of its functions; draw up the documents for the meetings of the extended executive session and carry out daily communication and coordination between the SRB experts and the national resolution authorities. With regard to institutions and groups, which have not been classified as significant and do not operate cross border, the national resolution authorities exercise fully their powers for resolution planning, assessing resolvability and the possibility to address the impediments to a resolution, as well as the resolution actions. At the same time, in order to ensure the effective and consistent implementation of the resolution framework, the SRB issues guidance and general instructions to the national resolution authorities regarding the performance of the tasks and adoption of resolution decisions.

Within the SRB, the national resolution financing mechanisms are replaced by the Single Resolution Fund (SRF), where the credit institutions from the participating Member States make ex-ante, and if needed, ex-post contributions. The decisions about determining the amount of banks' contributions to the SRF and about the SRF funds management are taken by the SRB. It is the national resolution authorities that are responsible for informing the banks about their calculated individual contributions and for raising and transferring the contributions to the SRF. Using the funds to finance the resolution of failing credit institutions within the Banking Union is an exceptional power conferred to the SRB. The SRB will perform this function with regard to both the banks in Bulgaria which are directly supervised by the ECB and the banks for which the BNB continues to be, even within the SRM, the resolution authority with direct powers.

As from the date on which the ECB's decision on the establishment of close cooperation became applicable, the management of the Bank Resolution Fund (BRF) was taken over by the BNB. The funds in the BRF were respectively allocated into a sub-fund for funding the resolution tools and powers in relation to branches of third-country credit institutions and a sub-fund for raising the contributions from the credit institutions located in Bulgaria. The two sub-funds are managed separately. In compliance with the Intergovernmental Agreement on the transfer and mutualisation of contributions to the Single Resolution Fund, ratified by the Republic of Bulgaria in 2018, immediately after the initial date of close cooperation the amount of EUR 81 018 259.53 was transferred from the sub-fund for collecting credit institutions' contributions to an account of the SRF. This amount is specified in a decision of the SRB of 18 September 2020 and is the first contribution to the SRF, equal to the amount which would have been transferred by the Republic of Bulgaria if it had participated in the SSM and the SRM as of 2016 – the year in which the Agreement became effective. After the first transfer, the money left in the sub-fund for collecting credit institutions' contributions will be deducted from the banks' liabilities for future contributions to the SRF, but it may not be used to directly fund the resolution of credit institutions operating in Bulgaria.

The SRB's role as a central resolution authority is also related to certain direct powers regarding all institutions, including the less significant institutions. The SRB has the powers to demand information, to conduct general investigations and on-site inspections, and to impose administrative and pecuniary penalties for non-compliance with the SRM Regulation. Furthermore, the SRB develops general policies and rules to be applied so as to make consistent the analyses used for the preparation of resolution plans and the taking of resolution actions. Such documents are drafted by the so-called horizontal units and are discussed by the SRB's working groups and/or sub-committees in which the participating Member States are represented. The BNB's representatives will also take part in these working groups and sub-committees. The established close cooperation between the SRB and the BNB as resolution authorities for credit institutions also requires that data be exchanged and that information be provided to the SRB for performing its tasks, including information that is banking and professional secrecy.

The banks in Bulgaria will have a new obligation to pay the fees, set by the SRB, needed by the SRB to cover the administration costs for performing its functions and tasks.

### ***3. Restructuring the BNB's activities***

Close cooperation is a process in which both the BNB and the credit institutions will have to adapt the model of interaction regarding the supervisory process and the bank resolution activities.

From a practical perspective, for the BNB this means reorganising the management, administrative, IT, and budget processes in these two areas, as well as an increase in the number of employees involved in these activities.

So far the banking supervision and bank resolution activities have been funded by the BNB's monetary income. From 2021 the BNB will move on to the principle of the ECB and SRB to fund the relevant activities by collecting fees from credit institutions.



## ORGANIZING CORPORATE ACTIONS THROUGH THE CENTRAL DEPOSITORY AD



Vasil Golemanski  
Executive Director  
Central Depository AD

In the last years the efforts of the Central Depository (CD AD) follow a sustainable tendency for applying the best European practices for offering services in the field of corporate actions – the main factor for the effective functioning of the pan European market, smooth application of the monetary policy and guarantee for the financial stability. In its quality as a member of the European Central Securities Depositories Association (ECSDA), in 2012 CD AD initiated the creation of intra-institutional working group (Bulgarian Market Implementation Group – BG MIG), uniting the efforts of the representatives of almost all segments of the corporate market in the country by overcoming the differences between the approved Market Standards for Corporate Actions, developed jointly by the Corporate Actions Joint Working Group (CAJWG) and the approved rules and procedures on national level in that field. The activities of the working group include also the preparation of the Progress Reports, which are presented at the European Market Implementation Group (EMIG), where the European depository institutions report the advance in the harmonization progress of the adopted methodological requirements in the field of corporate actions. The reports prepared by the EMIG are presented at the European Commission (EC).

At the end of 2019 in relation with the project of the European Central Bank for integration of the financial markets through the development of harmonized processes for collateral management, corporate actions and invoicing, a national working group for Bulgaria was created where the Central Depository and the government securities depository have a leading role. The main focus of the group is the consolidation and the periodical update of the Adaptation time tables on the basis of the developed ones by the AMI-SeCo (Advisory Group on Market Infrastructures for Securities and Collateral). The target of the analyses are debt securities and their processing in the custodian chain. Practically, CD AD prepared full estimation of the level of convergence of the national market practice with the European requirements for corporate actions for all types of financial instruments.

Improving the quality of the services offered in the field of corporate actions is also performed by continuous development and improvement of the IT system of CD in response both in the provisions in the national legislation and also to repeat in advance in many aspects the requirements of the international regulations and directives, esp. the Shareholders Right Directive.

Due to the entry into force of art. 110 as of September 2020 of the Law on Public Offering of Securities (LPOS) CD AD provided possibilities for reliable submission of information for forthcoming corporate actions.

An electronic platform for submitting information in standardized format in



accordance with art. 110g., para. 1-5 of the LPOS on forthcoming corporate actions was created. The electronic form contains all the necessary details for submitting information for initiated corporate actions in accordance with the working standards and market practices. The platform communicates directly with the system for generation and sending messages to the members of CD AD respectively, and when introducing the data of the public company electronic messages are sent automatically to the members of CD AD. The adoption, reading and processing of the information of the CD members is performed entirely automatically as well.

Another significant field where CD AD invested regarding the corporate actions is the finalization of EPOS (the Electronic Platform for General Meetings). EPOS is an entirely new development as it is commensurate with the best European practices. EPOS is created for holding entirely electronic or hybrid (with physical presence) general meetings /GM/. It offers full automatization of the activities of the companies – from announcing the information for holding GMs to the organization of the meetings. It offers possibilities for choice of the most suitable and appropriate way for electronic voting for the shareholders: in advance, personally or by a proxy (electronic proxy), online personally or by a proxy – services that many foreign investors and global custodians would like to be available on our market. In case of a hybrid GM those possibilities are amplified and combined with physical voting, on spot as the software provides optimum mitigation of the activities of the GM administrator.

EPOS was officially introduced in December, 2018 in Sofia during the annual meeting of the European Market Implementation Group for General Meetings (GMs E-MIG), which was hosted by CD. The recognition received by the CD is an assessment for the country in that highly representative forum and it was: “Bulgaria is one of the most modern European markets”. Thus, CD AD as an institution that leads the tendencies declares that it has been already responsible not only to keep but also to participate in the creation of the best European practices. BSE was the first company in the period 2018-2020 that used EPOS for holding its annual GMs.

EPOS, despite being an innovative product in the field of GMs organization is exceptionally timely considering the conditions imposed by the Covid-19 global pandemic.

In July, 2020 BACB became the first public banking company that used EPOS, thus complying with the anti-epidemic measure.

Two months later one of the biggest IT companies – Sirma Group Holding, chose the electronic platform of CD in order to organize its most significant corporate forum by keeping the necessary measures for safety and care of its participants.

Through the implementation of both systems for corporate actions processing CD responds entirely to the contemporary tendencies for the development in this field.



## 20 YEARS OF THE FOUNDATION OF THE INFORMATION TECHNOLOGIES COMMITTEE AT THE EXECUTIVE BOARD OF THE ABB



**Yuriy Genov**  
Chair of the  
Information Technologies Committee  
at the Executive Committee of the ABB

This year the Information Technologies Committee of the Association of Commercial Banks, now the Association of Banks in Bulgaria /ABB/, turns 20 years. It was established by a decision of the Executive Board of the ABB, which anticipated the need of adequate form of cooperation of banks during the period of increasing digitalization of financial and banking institutions and the development of various platforms for payments and exchange of information in the national banking system.



**Valentin Sabev**  
Former Chair of the  
Information Technologies Committee  
at the Executive Committee of the ABB

The initiative to create an IT Committee at the ABB was announced during the second banking IT Forum in April 2000 by Mr Valentin Sabev, IT Director at UBB at that time. It was supported by the other banking IT directors participating in the event. In May 2000 the first meeting of the Committee was held, its statute was adopted and the chairmanship was elected as the committee was chaired by Mr Valentin Sabev (UBB) and the Deputy Chairs – Mr Ognyan Drenski (CB Biochim) and Mr Kristin Krumov (Bulbank). Since 2011 until now, the Committee has been headed by Mr Yuriy Genov (DSK Bank).

The Committee started its activity at the end of the period of bank privatization and the entry of foreign banks on the Bulgarian market. An important trace on its activity was left by the standardization and subsequent consolidation of the banking activity.

The current century is characterized by a number of banking and technological challenges arising from the changing regulations in the country, caused by our accession to the EU and the technological harmonization of banking practice in our country with that in the EU countries. These processes led to the transition to centralized information models, the effect of which was manifested in the establishment and functioning of the Bulgarian banks as modern and innovative financial institutions.

The activity of the Committee, which structurally, along with the other committees and working groups in the ABB, represents an auxiliary and advisory unit at the Executive Board of the Association, focuses on three main areas.

The first direction is to perform the role of expert-advisory unit for technological banking expertise, analyses, consultations, comments, as well as to prepare opinions and recommendations on the adaptation of technical aspects of regulations of national importance.

The second direction of the Committee's activity covers functions inherent in the



coordination of the work in the implementation of national projects, directly or indirectly related to IT. Their successful implementation is predetermined by the in-depth discussions and the dominant professional expertise at the meetings of the Committee.

The third direction in the activity of the Committee is the creation of a professional informal environment for sharing experience between the institutions, good practices in technological renewal and the adaptation of the banking practices in Bulgaria to the European and world standards.

At the initiative of the Executive Board of the ABB, at certain moments the Committee was involved in large national projects implemented under the auspices of the BNB, requiring IT changes in all banking systems. Many of them laid the foundations of the modern payment system in the country and the methodology for interaction between banks and national institutions and regulators.

An example of such a radical change is the introduction of RINGS - the real-time national settlement system, based on SWIFT standards. In order to achieve equality between all banks, at its meeting the Information Technology Committee discussed and supported the initiative for the establishment of a national service bureau for SWIFT operations at Bankservice in 2003.

Another successful activity of the Committee is related to the introduction of a unified IBAN format for customer bank account numbers in all banks in Bulgaria.

In order to ensure transparent monitoring of the spending of budget funds on a national scale, the Committee discussed and supported with its views the introduction of an electronic budget payments system (SEBRA) in 2001. The system BISERA 6 also received technical support - for switching to three-time daily payments, which had a positive impact on the operational activities of banks and the improvement of customer service.



## IN BRIEF

■ In June the Executive Board of the ABB proposed to the Governing Council of the BNB an extension by 90 days of the deadline for submitting requests by bank customers under the Procedure for deferral (“Procedure for Deferral and Settlement of Liabilities Payable to Banks and their Subsidiaries – Financial Institutions in relation to the state of emergency enforced by the National Assembly on 13 March 2020 as a result of the COVID-19 pandemic”).

The proposal of the Executive Board of the ABB to the BNB was submitted after coordination with the members of the Association and it is in connection with the decision of the European Banking Authority (EBA) as of 18 June 2020 regarding a possible extension of the deadline for the implementation of the EBA Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID-19 crisis (EBA/GL/2020/02) until 30 September 2020, compared to the originally envisaged deadline of 30 June 2020.

After the decision of the Governing Council of the BNB taken on the 9<sup>th</sup> of July 2020 to approve the changes, clients who meet the requirements for deferral of liabilities had the opportunity to state that they want to benefit from the proposed conditions until 23 September 2020. For the clients of the banks – natural persons and legal entities, it was admissible to defer liabilities for a period of up to 6 months. This term expires on the 31<sup>st</sup> of March 2021.

According to the data provided by the BNB, for the period from April to August 2020 nearly 109 thousand loans of bank customers have been deferred under the Procedure for deferral, with a total value of over BGN 9 billion, constituting approximately 15% of the amount of the banks’ loan portfolio. The loans to non-financial corporations approved for deferral are over 14 thousand, at the amount of nearly BGN 7 billion. This represents about 20% of the total amount of corporate loans. The approved requests for loans to households are nearly 95 thousand amounting at more than BGN 2 billion or 8.5% of the total amount of loans to households.

For the banks in Bulgaria, the data announced by the BNB show the significant success of the measure proposed by the ABB and approved by the BNB to alleviate borrowers in the context of the ongoing pandemic.

■ In September the annual General Meeting of the International Banking Institute (IBI) Ltd. which is practically owned by the ABB was held. The report on the activities of the organization for 2019 was adopted, as well as the financial plan for 2020. In addition to the executive director of the company - Mrs Maria Georgieva, the mandates of the directors of the company Mrs Petya Dimitrova - Chief Executive Officer of Eurobank Bulgaria and Mrs Diana Miteva - Executive Director of DSK Bank were also continued. The IBI adapts its work to the conditions of the complex epidemic situation, continuing to organize distance trainings and seminars on the most current and important topics for the banks in active cooperation with the ABB.