



Bulgarian National Bank

INTERNAL RULES

FOR THE WORK OF THE RESOLUTION OF CREDIT INSTITUTIONS DIRECTORATE

(Adopted with Decision No. 98 of the BNB Governing Council, amended, Decision No. 41 of the BNB Governing Council from 16 March, 2017, effective as of 1 April, 2017)

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Chapter One

GENERAL PROVISIONS

Art. 1. These Internal Rules regulate key matters in relation to the functions and competences of the Resolution of Credit Institutions Directorate (“the Directorate”) of the Bulgarian National Bank (BNB).

Chapter Two

RESOLUTION OF CREDIT INSTITUTIONS DIRECTORATE

Section I

Status and Structure of the Directorate

Art. 2. (amended, Decision No. 41 of the BNB Governing Council from 16 March, 2017, effective as of 1 April, 2017) The Directorate shall be an independent structural unit that would assist the Governing Council (GC) of the BNB in exercising its functions as a resolution authority of banks subject to supervision or consolidated supervision by the BNB. The operating activities of the Directorate shall be subordinated to the BNB Deputy Governor in charge of the Issue Department.

Art. 3. The Directorate shall be organized and shall perform its activities in accordance with the Law on Recovery and Resolution of Credit Institutions and Investment Firms (LRRCIIF), with these Internal Rules and with other regulatory acts on the BNB activities or internal rules adopted by the GC, and pursuant to the effective regulatory framework on credit institutions resolution.

Art. 4. In performing its powers the Directorate shall prepare opinions and proposals to the BNB GC for adoption of decisions in relation to performing its functions as a bank resolution authority.

Art. 5. In accordance with the functional independence of the specifics of its activities, the Directorate shall be divided into three divisions *Methodology and Reporting, Planning, Coordination and Performance of Resolution Activities* and *Legal Services*.

Section II

Goals of the Directorate’s Activities

Art. 6. The main goals of the Directorate are related to:

1. Ensuring availability (and maintaining) appropriate resolution plans for banks and significant branches doing business in the Republic of Bulgaria.
2. Implementing measures for resolution of banks for which all the conditions are deemed to be simultaneously in place for pursuing resolution actions.

Section III.

Functions of the Directorate

Art. 7. The key functional duties of the Directorate are related to:

1. Study analysis and implementation of the guidelines of the European Banking Authority (EBA) applicable to the bank resolution regulatory framework, and the EBA regulatory technical standards and implementing technical standards in this area;
2. Preparation of opinions and proposals to the BNB CG for adoption and updating of resolution plans for each bank, which is not part of a group subject to consolidated supervision, and resolution plans for bank groups and (mixed-activity) financial holding companies having their seats in the Republic of Bulgaria, or where these are subject to consolidated supervision by the BNB. Where the BNB is the resolution authority of a subsidiary (or a significant branch), the resolution plans prepared by the relevant resolution bodies on group level shall be coordinated with the BNB within resolution colleges organized thereby;
3. Drawing up of letters and instructions to banks regarding the implementation of the bank resolution regulatory framework and reporting in this area. Providing methodological assistance to banks on operating level;
4. Drawing up of opinions on measures for reduction or removal of impediments to the prospect of resolution of a particular bank, provided the assessment made of the prospect of restructuring has found out there are significant impediments to its implementation; defining the requirements to the relevant bank (which are to be laid down for it by the Banking Supervision Department) to submit a proposal of possible measures for overcoming or removal of impediments; where it is subsequently judged that the measures proposed by the bank do not effectively reduce or remove the significant impediments found out, to prepare a (reasoned) opinion for the GC for imposing on the bank a requirement to undertake one or more specific measures, as stipulated in Art. 29, paragraph 4 of LRRCIIF.
5. Preparation of proposals to the BNB GC to determine (for each individual bank) a minimum requirement for own funds and eligible liabilities, expressed as a proportion of its total liabilities; exercising control (jointly with the Banking Supervision Department) over the compliance by banks of the minimum requirement for own funds and eligible liabilities;
6. Preparation of proposals to the BNB GC as to determining the contributions payable into the Bank Resolution Fund (BRF) in accordance with the principles stipulated under Art. 139, paragraph 5 of LRRCIIF, and exercising control over the payment of contributions due from banks for replenishing BRF;
7. Participation in the development and updating of the system of quantitative indicators implemented by the Banking Supervision Department for monitoring the development and financial position of banks, with a view to timely identification of situations where an individual bank has reached a condition which would define it as a failing bank within the meaning of Art. 51, paragraph 3 of LRRCIIF;
8. Preparation of proposals to the BNB GC for enforcement of resolution measures against banks, which are deemed to have simultaneously in place all the condition for undertaking resolution actions;
9. Taking actions to ensure that an evaluation is made by an independent person of the assets and liabilities of a bank, for which resolution is pending.
10. Based on the evaluation of the bank's assets and liabilities, to prepare for the BNB GC opinions on the following: (1) if the resolution conditions have been met; (2) what would be the appropriate restructuring action to be pursued by the BNB towards the

bank (provided the conditions for resolution have been met); (3) to what an extent the outstanding shares should be cancelled or reduced as a share of the capital, and the degree of write-down or conversion of the respective capital instruments and eligible liabilities (if the bail-in tool is resorted to); (4) which assets, rights, obligations or instruments of ownership shall be transferred, as well as the amount of the consideration owed to a bank under resolution or to its shareholders (or owners of other instruments of ownership) if the *bridge institution tool* or the *asset separation tool* is applied; (5) which assets, rights, obligations or instruments of ownership shall be transferred when implementing the *sale of business tool*.

11. Preparation of all procedural obligations of the bank resolution authority in relation to undertaking resolution actions – drawing up notification letters to a broad range of competent authorities, drawing up of acts under which resolution actions are undertaken, preparation of notices to customers of a bank under restructuring about the consequences of the resolution actions undertaken, etc.

12. Preparation of proposals to the BNB GC for approval of reorganization plans for banks to which the *bail-in tool* is applied.

Art. 8. The Directorate shall cooperate with the BNB Banking Supervision Department in preparing, planning and implementing decisions about undertaking resolution measures. It shall assist the BNB Governing Council members who are in charge of the banking supervision and resolution activities with the information exchange between the BNB and the Bank Deposit Guarantee Fund (BDGF), as well as with the Minister of Finance. The latter shall be forthwith notified of BNB's decisions on undertaking resolution actions and implementing resolution tools.

Art. 9. With regard to cross-border banking groups operating in the Republic of Bulgaria, the Directorate shall carry out coordination in the resolution area with foreign resolution authorities and EBA, including participation in working groups, committees, resolution colleges, and shall maintain a database with the results of their work.

Art. 10. When the resolution actions involve the granting of state aid, including the use of funds from the Bank Resolution Fund (BRF), the Directorate shall prepare the information necessary to submit to the Minister of Finance, who is the competent state aid authority, so that he could apply to the European Commission for a positive or provisional decision on state aid compatibility with the internal market. Based on such decision, the BNB (in its aid administrator capacity within the meaning of § 1, item 4 of the additional provisions of the State Aid Law) may take a decision about undertaking resolution actions, respectively adopt an act on undertaking resolution actions.

Art. 11. Apart from the above described processes relating to the core functions and actions carried out by the Directorate, it may also employ in its operational work any other tools or mechanisms applicable under the regulatory framework on credit institutions resolution.

Art. 12. The organisation of work processes at operational level and the particular tasks and actions of each division within the Directorate relating to the performance of various processes, as well as (where needed) interaction with other units at the BNB and/or third parties, shall be subject to individual procedures providing for concrete measures and processes of implementing LRRCIIF.

Section IV

Tasks of the Directorate

Art. 13. The Directorate shall put forward to the BNB Governing Council, in its capacity as a resolution authority, to adopt decisions on:

1. Overcoming or removing obstacles to the possibility of bank resolutions;
2. Ensuring continuity of the critical functions of a bank under resolution through the resolution tools and powers provided for in LRRCIIF, as well as minimising the adverse consequences for the financial stability and the negative economic and social consequences for the Republic of Bulgaria and other member-states (with regard to cross-border banking groups);
3. Applying resolution tools and exercising the resolution powers most appropriate for attaining the resolution purposes in each particular case;
4. Ensuring protection of public funds by minimising both reliance on extraordinary public financial support as well as its size;
5. Not allowing the use of extraordinary liquidity facility by the central bank or a liquidity facility provided by the central bank under non-standardised collateral, maturity or interest rate conditions;
6. Ensuring protection of depositors whose deposits are guaranteed under the terms and conditions of the Law on Bank Deposit Guarantee, as well as providing overall protection of customers' funds and assets;
7. Ensuring that a bank resolution is carried out at minimum costs and by avoiding loss of value, unless such costs and losses are necessary for attaining the resolution purposes. Given that the resolution purposes are equally important, they shall be balanced in line with the nature and circumstances of each particular case.

Section V

Information of relevance for resolution purposes

Art. 14. The Directorate shall organise (jointly with the Banking Supervision Department) the implementation of measures which ensure that the Directorate has, at any time and to the extent possible, updated and exhaustive information necessary for preparing and implementing resolution plans.

Art. 15. With regard to the implementation of the resolution strategy, the Directorate may propose to the BNB Governing Council, in its capacity as a resolution authority, to require that the banks provide data used for management information purposes (management information system) and, upon request, specific information at a legal entity level or regarding

all entities whose default is likely to have a negative impact on the financial stability in any jurisdiction.

Art. 16. Where a particular bank is subject to any ad-hoc or regular requirements to provide additional data of relevance for resolution purposes, the Directorate shall make sure that the bank is able to provide updated information required as per the timeframe needed in line with the resolution strategy, and that based on the bank's information systems all data necessary to draw up and implement the resolution strategy can be prepared, as well as that such data enable a reliable valuation before and during the resolution.

Art. 17. The minimum scope of information collected, processed and analysed by the Directorate is given in Appendix No 3 to Art. 16, paragraph 1, item 2 of LRRCIIF.

Section VI

Requirements for the protection of professional secrecy

Art. 18. (1) When using information acquired and created in connection with bank recovery and resolution, all confidentiality requirements in Art. 116 of LRRCIIF shall be applied and such information shall only be used for the exercise of duties stemming from LRRCIIF.

(2) To ensure compliance with the requirements in paragraph 1, the Directorate shall draw up and propose to the BNB Governing Council to adopt internal rules, including rules that ensure protection of the professional secrecy of the persons immediately involved in the resolution process.

(3) Notwithstanding the rest of the provisions of Art. 116 of LRRCIIF, the BNB, in full compliance with the confidentiality requirements, may carry out information exchange under memorandums between the BNB and other institutions, where necessary for the purposes of planning and carrying out resolution action.

Section VII

Exchange of information with other structural units of the BNB

Art. 21. The Resolution of Credit Institutions Directorate shall interact in its work with the Banking Supervision Department.

Art. 22. The Legal Directorate shall cooperate with the Resolution of Credit Institutions Directorate when a bank has been placed under a specific resolution regime.

The two directorates shall interact actively throughout all phases of the resolution process until its completion.

Art. 23. All processes under Art. 21 and Art. 22 hereof shall be subject to separate working procedures for interacting with the Banking Supervision Department and with the Legal Directorate.

Section VIII

Cooperation with the European Banking Authority (EBA) in relation with the applicable regulatory framework for recovery and resolution of credit institutions

Art. 24. (1) The BNB in its capacity as a resolution authority shall cooperate with EBA in performing its duties under LRRCIIF in accordance with Regulation (EU) No. 1093/2010 of the European Parliament and of the Council establishing a European Supervisory Authority (European Banking Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/78/EC. The BNB shall, without delay, provide EBA with all the information necessary to carry out its duties to provide information.

(2) The main aspects of the cooperation with EBA relate to sending notifications to EBA, and requesting assistance from EBA for reaching joint decisions, within resolution colleges, about cross-border banking groups.

The Resolution of Credit Institutions Directorate shall draw up opinions and prepare all the documentation on these matters.

(3) Where EBA has concluded framework cooperation agreements with the relevant third-country resolution authorities, the Directorate may propose that the BNB in its capacity as a resolution authority should also conclude non-binding cooperation agreements with them, where appropriate, in accordance with the framework agreements, of which the BNB shall notify EBA.

Section IX

Procedural obligations for notifying other authorities

Art. 26. (1) Once the BNB has taken resolution action, in line with the decision made the Resolution of Credit Institutions Directorate shall prepare all notifications under Art.115 of LRRCIIF.

Art. 27. The Directorate shall prepare and propose for approval to the BNB Governing Council sample letters, memoranda and other documents, by which the BNB will exchange information with the Ministry of Finance in the cases where the information concerns a decision or an issue that requires the notification, approval or consent of the Ministry or may have implications for the public finances.

Section X

Participation in resolution colleges

Art. 28. (1) The Resolution of Credit Institutions Directorate shall be responsible for drawing up opinions and taking actions relating to the participation of the BNB in its capacity as a resolution authority in resolution colleges which ensure cooperation and coordination between

the resolution authorities of Member States or of third countries where cross-border banking/financial groups operate.

(2) Where it is a group-level resolution authority, the BNB shall establish resolution colleges whose tasks and powers are described in detail in Art. 120 of LRRCIIF.

(3) The BNB shall participate in a resolution college organised by the relevant group-level resolution authority or in another group or college performing the same functions and tasks, under the conditions of Art. 121 of LRRCIIF.

(4) Where a third-country parent undertaking has a subsidiary bank licensed in the Republic of Bulgaria, and subsidiaries established in other Member States, or a third-country bank has a significant branch established in the Republic of Bulgaria, and significant branches established in other Member States, the BNB in its capacity as a resolution authority and the resolution authorities of the other Member States may establish a European resolution college that shall perform the functions and carry out the tasks specified in Art. 122 of LRRCIIF.

(5) Subject to confidentiality requirements, the BNB in its capacity as a resolution authority shall provide the other resolution authorities and competent authorities on request with all the information relevant for the performance of their tasks in relation to resolution of banks and entities belonging to their groups.

(6) Where it is a group-level resolution authority, the BNB shall coordinate the flow of all relevant information between resolution authorities, as well as provide the other resolution authorities all the necessary information in a timely manner with a view to facilitating the performance of the resolution colleges' tasks.

(7) Where a subsidiary from the Republic of Bulgaria belongs to a group under resolution, Art. 124 of LRRCIIF shall apply.

(8) Where a subsidiary outside the Republic of Bulgaria belongs to a group under resolution, and the BNB is a group-level resolution authority, Art. 125 of LRRCIIF shall apply.

(9) Where a group has been placed under resolution, and the BNB is a group-level resolution authority, Art. 126 of LRRCIIF shall apply.

(10) Where a group has been placed under resolution, and the BNB is a resolution authority of a subsidiary, Art. 127 of LRRCIIF shall apply.

(11) In any case where a group resolution scheme is not implemented and the BNB in its capacity as a resolution authority takes resolution actions in relation to any group entity, the BNB shall cooperate closely with the other resolution authorities within the resolution college with a view to achieving a coordinated resolution strategy for all the group entities that are failing or likely to fail.

Chapter Three

FINAL PROVISIONS

§ 1. These Internal Rules have been adopted on grounds of Art. 2, paragraph 3 of the Law on the Recovery and Resolution of Credit Institutions and Investment Firms (Darjaven Vestnik, No.62 of 14 August 2015) by the BNB Governing Council, with Decision No. 98 of 29 October 2015, and shall enter into force as of 1 November 2015.

§ 2. Amendments and supplements to these Internal Rules shall be made by the BNB Governing Council and shall enter into force on the day specified in the decision of the BNB Governing Council.