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CEE NEWSLETTER
Bulgaria

Draft legislation on covered bonds in Bulgaria

A draft law on covered bonds was recently approved by the Bulgarian government as a measure to transpose *Directive (EU) 2019/2162 on the issue of covered bonds and covered bond public supervision* (the "**Covered Bonds Directive**"), aimed at protecting investors by establishing harmonized rules for covered bonds throughout the EU. The objective of the proposed Covered Bonds Act (the "**Draft Law**") is to create a more favourable environment for the development of the Bulgarian covered bonds market. The public consultation process has already been completed and – once adopted by the Parliament – the Draft Law is expected to come into force in July 2022. Below we provide a brief overview of some of its key aspects.

Scope of application

Covered bonds are debt securities issued by a credit institution, which are backed by certain high-quality cover assets (usually a pool of mortgage loans or government debt securities). The Draft Law provides detailed rules on the issuance procedure, structural features and public supervision of such bonds.

Authorization regime and supervision

In line with the requirements of the Covered Bonds Directive, the Draft Law provides that the issue of covered bonds will be subject to public supervision – the competent national authority being the Bulgarian National Bank (the "**BNB**"). Prior to the issuance of a covered bond program (or an individual cover bond issuance), credit institutions will be required to obtain authorization from the BNB. In addition, institutions issuing covered bonds will have to submit regular reports to the supervisory authority.

Investor protection and further rules

The proposed Covered Bonds Act contains strict coverage and liquidity requirements for covered bonds (including a cover pool liquidity buffer). It also imposes an obligation on issuing banks to separate the coverage assets in their accounts and maintain a coverage register. In the event of insolvency of the issuing bank, the assets included in this register do not form part of the insolvency estate. The Draft Law further provides for the possibility for part of the coverage assets to be located in third countries, subject to certain conditions; an opportunity for Bulgarian banks to participate in intragroup structures for the issuance of covered bonds; joint funding options, etc.

Outlook

The Covered Bonds Act will also repeal and replace the Mortgage Bonds Act from 2000, which has rarely been used. The proposed legislative framework is expected to provide attractive low-risk instruments for key groups of institutional investors (e.g. for pension insurance companies) and efficient funding opportunities for banks. At the same time, the new rules would increase the administrative burden (and costs) for issuing banks – e.g. due to the authorization, reporting and register maintenance requirements. It remains to be seen whether the proposed Covered Bonds Act will indeed lead to a revival of the currently inactive bonds market.

For more information

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