

**RULES**  
**ON THE ORGANIZATION AND POWERS OF THE REGULATORY**  
**COMPLIANCE DEPARTMENT OF FACTORI AD**

**SECTION I**

**Principles and objectives of the Regulatory Compliance Department (RCD)**

1. The main objective of the Regulatory Compliance Department is to identify any risk of non-compliance or non-compliance by the intermediary with or with its obligations under the MFPA, and the resulting risks.

2. The main principles applied in the activity of the RCD are:

- o strict compliance with current legislation;
- o creating conditions to avoid conflicts of interest between the company and its clients, as well as between the clients among themselves;
- o ensuring compliance control by management bodies, brokers and employees of the PE with the requirements for carrying out activity as a PE established in the Financial Instruments Markets Act, EC Delegated Regulations, as well as other by-laws on implementation of the law;
- o creation of an organization for establishing inconsistencies in the company's activity as an investment intermediary with legal and regulatory requirements;
- o ethics and correctness in relationships with clients and persons working for the investment intermediary;
- o exercising due diligence and the established standards in the MFPA and the Delegated Regulations regarding the property rights of clients related to their financial instruments and funds;
- o maintaining confidentiality of customer relationships and protecting trade secrets;
- o non-use of the information received by the client to the detriment of the client, for his own benefit or for the benefit of third parties;
- o conclusion of transactions at the expense of the client under the best possible conditions and according to the provisions of Bulgarian legislation;
- o treatment of customers according to their categorization and profile, as well as providing access to information, according to regulatory requirements;
- o high efficiency and functionality, clear and precise distinction of rights, duties and responsibilities;

- o clear and strict accountability;
- o independence of the regulatory compliance department.

## **SECTION II**

### **Structure of the Regulatory Compliance Department (RCO)**

1. The RCD is built and carries out its activities in accordance with the nature, scale and complexity of the activity of the investment intermediary, as well as with the type and scope of the performed investment services and activities.

2. The head of the RCD should have a higher education and no less than 3 years of experience in the field of capital markets, should not have been convicted, should not have had administrative penalties imposed by the FSC in the last 3 years for non-compliance with the MFFI or the acts on its implementation and that no coercive administrative measure has been applied to him by the FSC or the BNB. Other requirements for occupying the position may be determined in the job description at the discretion of the Board of Directors.

3. The head of the department reports on his activities to the company's Board of Directors.

4. The head of the RCD, as well as all employees of the department, cannot be brokers, investment consultants, members of the Board of Directors, procurators or other persons who are entrusted with the operational management of the PE or who are involved in the performance of activities or individual actions in relation to which the department carries out compliance checks. The previous sentence also applies to all other employees of the National Security Service.

5. In cases where the nature, scale and complexity of the activity of the investment intermediary and the type and scope of the investment services and activities performed by it allow this, the RCD may consist of one employee.

## **SECTION III**

### **Powers of the RCD. Inspections, reports and programs**

**1. The National Security Agency carries out comprehensive compliance control of the activity of the investment intermediary, through the following actions :**

- a) constantly monitors and regularly assesses the adequacy and effectiveness of the introduced measures and procedures and rules in the II, as well as of the measures to eliminate all deficiencies in the compliance with obligations by the investment intermediary;
- b) consults and provides assistance to the relevant persons responsible for the implementation of investment services and activities, in connection with compliance with the obligations of the investment intermediary under the PFFI;
- c) reports to the Board of Directors, at least once a year, on the implementation and effectiveness of the overall mechanisms for control of investment services and activities, the identified risks,

- d) report to the Board of Directors regarding the handling of complaints, as well as any corrective measures that have been taken or should be taken;
- (e) monitor the functioning of the complaint handling system and consider complaints as a source of important information in the context of its overall monitoring responsibilities.
- f) the persons working in the National Security Service do not participate in the performance of the services or activities controlled by them;
- g) the method of determining the remuneration of the persons working in the ONS should not compromise their objectivity and does not give rise to the possibility of this.
- h) the investment intermediary is not obliged to comply with letter f) or g) if it can prove that, in view of the nature, size or complexity of its business activity, as well as the nature and scope of investment services and activities, the requirement under these letters are not proportional, and that the RCD continues to be effective. In this case, the investment intermediary shall assess whether the effectiveness of the compliance unit has been compromised. The assessment is subject to regular review.

## **2. Inspections carried out by the National Security Agency in the operational activities of the investment intermediary:**

- at the end of each month, the RCD carries out an inspection of the concluded contracts, the documents presented and drawn up in connection with them, the orders accepted, the documents presented and drawn up in connection with them, the confirmations presented to customers and the payments made, as well as the transactions that the members of its management and control bodies and the persons working under a contract for the investment intermediary have concluded for their own account through the investment intermediary, according to the information provided, in this month, compliance with the requirements of the MFRS, the acts on its implementation and the applicable Delegated Regulations .

- at the end of each month, the RCD carries out an inspection of the operations of each portfolio managed by the investment intermediary and the reports presented to the clients in the respective month for compliance with the requirements of the PFFI, the acts on its implementation and the applicable Delegated Regulations.

- checking whether the contract that the investment intermediary concludes with a client for any investment and/or additional service complies with the requirements of the MFRS, the acts on its implementation, the Delegated Regulations and the internal acts of the investment intermediary.

- performs other internal checks at its own discretion or if it has received a signal about it from a relevant person or a person working under an II contract;

- draws up protocols for the performed inspections, which indicate the specific contracts and orders subject to inspection, as well as the established regulatory inconsistencies;

- pre-checks and approves the advertising materials and public statements of the members of the Board of Directors, the procurator, the relevant persons and the persons working under an II contract and the information provided to clients;

- examines customer objections and complaints;

- verifies the powers of attorney of clients when the client is represented by an attorney;

- proposes measures to eliminate gaps and weaknesses in the work of the IP and to prevent regulatory inconsistencies with the requirements of the PFMI, acts on its implementation and the applicable Delegated Regulations;

- in the event of significant contradictions, he takes specific measures to eliminate them, which are reflected in the protocols of the inspections carried out;

- provides assistance to the Financial Supervision Commission ("FSC") in its inspections of the activities of the II, including providing an employee from the department at the disposal of the officials from the FSC performing the inspection;

- provides advice and supports the persons responsible for the services and activities performed by the II, in order to guarantee their implementation in accordance with the requirements of the PFFI and the acts on its implementation.

- performs other functions assigned to him according to the MFFI, the MFIP, applicable Delegated Regulations and the present rules.

**3. Creation of protocols for inspections and reports .** When carrying out any inspections by the National Security Agency, a protocol is drawn up, which indicates the inspected investment services and activities of the PE (subject of inspection), as well as the discrepancies found and the advice given. In the cases under the previous sentence, the department checks the actions taken in accordance with the findings and advice and the implemented measures.

3.1. Within 3 working days of the inspection, the protocol is presented to the head of the National Security Service, who gets acquainted with the findings in it and approves it, accordingly orders the performance of additional actions. When the RCD consists of one employee, the results of the performed inspections are summarized in a report prepared by him to the Board of Directors.

3.2. By the 10th of each month, the head of the RCD prepares and submits to the Board of Directors of the PE a report on the inspections carried out by the department in the previous month. The report indicates the identified non-conformities and the measures taken to eliminate them, and proposes the adoption of new measures by the Board of Directors of the II. The report also contains an assessment of the internal organization and internal control system operating in the II, which includes the current rules, with a view to their ability to guarantee the lawful functioning of the II and the timely establishment of activities in violation of the regulatory requirements, as well as proposals to the Board of Directors for adoption of changes in the current rules, in case they do not sufficiently ensure the fulfillment of these requirements.

3.3. The RCD reports directly to the Board of Directors in each individual case when it detects a significant risk of non-compliance by the investment intermediary with its obligations under the MFFI.

3.4. In case of violations of the legal requirements for the activity of the II or the fulfillment of obligations to the customers, the employees of the National Security Agency take measures to eliminate these violations, which are reflected in the protocols of the performed inspections and in the report from the head of the department to the Board of Directors.

3.4.1. In the event that the person working for the II does not comply with the instructions of the National Security Agency and/or the non-compliance continues, the head of the National Security Agency shall immediately notify the Board of Directors of the Private Entity and propose the imposition of disciplinary punishment or other sanction, incl. termination of the employment or civil contract with this person.

**4. Review of complaints** . Pursuant to Art. 26, paragraph 3 of the Delegated Regulation 2017/565, the RCD is responsible for the examination of complaints in the II, received by customers or potential customers of the company.

4.1. Procedure for consideration of complaints by the RCD:

- records complaints in a special diary and registers by whom, against whom, for what and with what claim the complaint was filed;
  - verification of the merits of the complaints received is carried out by checking the facts objectively and comprehensively and, if necessary, taking written explanations from employees of the II, relevant persons and persons working under contract, as well as having the right to request additional information and clarifications from the complainant;
  - if possible, take action to eliminate the discrepancy or technical error;
  - proposes the imposition of labor sanctions under the Labor Code or according to the applicable law in the relationship.
- Controls the preparation of a response to the complaint and controls its sending to the complainant.

4.2. When dealing with a complaint, the investment intermediary communicates with clients or potential clients clearly, in plain language that is easily understood, and responds to the complaint without unreasonable delay.

4.3. The investment intermediary communicates to the clients or potential clients its position on the complaint and advises the clients or potential clients of the options available, including that they may refer the complaint to an alternative dispute resolution structure within the meaning of the Consumer Protection Act, or that the client may file a civil suit.

4.4. The investment intermediary is obliged to notify the FSC of the complaints received and the results of their consideration, according to the requirements established by the FSC.

4.5. The RCD analyzes complaint data and their handling to ensure that potential risks or problems are identified and addressed in the future.

4.6. The investment intermediary publishes details of the process applied when dealing with a complaint. These details include information about the complaints management policy and contact details for the RCD. Information is provided to customers and potential customers upon request or upon receipt of a complaint.

4.7. Filing a complaint by clients and/or potential clients of the investment intermediary is free of charge.

**5. Training of the employees of the investment intermediary, conducted by the ONS**

5.7.1. The RCD organizes training for the employees of the investment intermediary, who perform functions related to the provision of investment services

and activities under PFFI. The purpose of training is to increase efficiency in the performance of employees' functions.

5.7.2. The training is conducted at least once a year and, if necessary, training is conducted depending on the specific needs.

5.7.3. The training should be continuously developed, taking into account any changes, including new legislation, standards or guidelines issued by the European Securities and Markets Authority (ESMA) and the competent authorities, changes in the business model of the investment intermediary.

5.7.4. The RCD periodically assesses whether the employees who perform functions in the field of investment services and activities are sufficiently knowledgeable and whether they correctly apply the policies and procedures of the investment intermediary.

5.7.5. The head of the RCD prepares a report on each conducted training, which is presented to the management body of the company, and upon request - to the deputy chairman of the FSC.

5.7.6. RCD supports the day-to-day activities of employees from operational units by providing expertise and advice related to compliance with regulatory requirements and the intermediary's internal rules.

5.7.7. The head of the RCD conducts individual training for each newly appointed employee who performs functions related to the services and activities under the PFFI and draws up a document certifying the training conducted.

5.7.8. The head of the RCD organizes a professional briefing for the employees of the PE, whose functions are directly related to the conclusion of contracts for the provision of investment or additional services under the PFFI, as well as to the acceptance, transmission or execution of orders for transactions with financial instruments. The briefing can also be carried out periodically when the need arises, as well as in case of changes in regulations or internal rules requiring it. In this case, the person who conducted the briefing draws up a document that certifies the conduct of the briefing, contains a general description of its subject and is signed by him and the instructed persons.

## **6. Risk Assessment and Monitoring Program prepared and offered by RCD.**

6.1. Based on the application of the present rules and the inspections carried out at least once a year, by January 31, the head of the RCD prepares and submits to the management body a written document containing a justified assessment of the level of risk to which the investment is exposed intermediary, from non-compliance with the regulatory requirements. When preparing the assessment, the investment services and activities of the investment intermediary, as well as the types of financial instruments traded and distributed, are taken into account.

6.2. The investment intermediary provides access to the head of the RCD to all the information necessary to fulfill the requirements under the previous point.

6.3. Identified risks should be reviewed regularly and whenever necessary to ensure that any new risks are taken into account.

6.4. Those representing the investment intermediary are responsible for the effectiveness of the established organization and the performance of the functions of the Regulatory Compliance Department.

**7. Non-compliance Risk Monitoring Program** . Based on the risk assessment prepared in the above order, the head of the RCD prepares and submits to the management body a risk-oriented monitoring program by January 31.

7.5. The program takes into account all areas in which the investment intermediary performs investment services and activities, as well as all important

additional services, including the important information collected in connection with the monitoring of the handling of complaints.

7.6. The monitoring program should establish the priorities determined by the assessment of the risk of non-compliance, which ensures comprehensive monitoring of this risk.

7.7. On the results of the performed monitoring (monitoring), in accordance with the monitoring program, the head of the RCD prepares and submits a report to the governing body by January 31 of the following year.

7.8. The monitoring report covers:

- description of the implementation and effectiveness of the overall environment for the control of investment services and activities;
- a summary of the main findings of the review of policies and procedures;
- a summary of the on-site inspections or documentary reviews carried out by the RCD, including the identified violations and gaps in the organization and compliance verification processes put in place by the investment intermediary, and the measures taken as a result;
- all risks identified within the monitoring activities of the RCD;
- relevant changes and developments in regulatory requirements during the period covered by the report and the measures that have been taken and should be taken to ensure compliance with the changed requirements (when senior management has not been previously informed about them from other sources);
- other important compliance issues that have arisen since the last report;
- the essential correspondence with the competent authorities (when the top management was not previously informed about them from other sources).

## **8. Relations with other bodies and persons working for the II (relevant persons, employees under employment or civil contract)**

8.9. The employees of the RCD carry out control for regulatory compliance, having the right to full access to all necessary information and to all documents related to the exercise of control powers.

8.10. The members of the management and control bodies of the investment intermediary and all other persons who work under a contract for the investment intermediary are obliged to assist the employees of the RCD in carrying out their functions.

8.11. An employee from the RCD is present at the management address and in every branch or office where contracts for the provision of investment or additional services by private individuals are concluded or orders are accepted. The requirement of the first sentence may not be applied by the investment intermediary for branches or offices for which it would not be appropriate in view of the type and scope of the investment services and activities carried out in these branches or offices and the manner of their performance.

8.12. The investment intermediary must at any time be able to prove to the Deputy Chairman of the FSC the existence of the circumstances that do not require compliance with the first sentence and that its non-compliance does not lead to a violation of the principles established in the MFRS and Delegated Regulation 2017/565.

## **9. Reporting by relevant persons and employees of the II working under contract for it, about violations committed by employees of the II**

The II defines appropriate and effective procedures for the submission of internal reports by the employees of the investment intermediary about violations committed or committed by employees/relevant persons in the company, ensuring protection

from unfair treatment of the employees of the investment intermediary who submit reports of violations.

- 9.1. Reports of violations committed by relevant persons or persons working under an II contract are submitted to the National Security Service.
- 9.2. When reporting a violation to the National Security Service, the employees or the head of the department who received the report have no right to distribute information about the identity of the person who submitted the report and its content.
- 9.3. The personal data of the person who submitted the report or of persons named in the report (customers or employees of the II) are protected in accordance with the Personal Data Protection Act ;
- 9.4. Confidentiality is guaranteed in all cases for whistleblowers, unless breach of confidentiality is required by law in subsequent pre-trial or judicial proceedings.
- 9.5. Reports filed under this article are considered by the National Security Agency objectively, fully and comprehensively, and the case is investigated in detail, with the National Security Agency having the right to collect oral and written evidence, and having the right to full and unrestricted access to the information necessary to verify the report. For the review and reporting of the results of reviewed signals, the procedure for review of appeals under these Rules shall be applied.
- 9.6. An analysis of the submitted signals is made by the National Security Agency in the annual report and is included in the overall risk assessment of the activity of the private enterprise.

#### **IV. RESPONSIBILITY OF EMPLOYEES IN DEPARTMENTS**

1. Employees of the "Regulatory Compliance" Department are responsible for intentionally concealing, erasing or distorting data established during the inspections, for violations of the internal rules of the investment intermediary, omissions, inconsistencies or violations of the PFMI, the acts on its implementation, directly applicable Regulations , Delegated Regulations or other legal acts that regulate the activity of the investment intermediary.

#### **ADDITIONAL PROVISIONS**

§ 1. The terms and expressions used in these Rules have the meaning given to them according to the MFPA, the acts on its implementation, as well as the relevant Delegated Regulations of the EC.

#### **FINAL PROVISIONS**

§ 1. These Rules have been adopted and prepared on the basis of Art. 67, para. 2 of the Financial Instruments Markets Act (MFIA) and Art. 22 and 24 of Delegated Regulation (EU) No. 2017/565 of the EU.

§ 2. These rules are mandatory for all employees, persons working under an employment or civil contract for an

§ , the members of the management bodies of an II, as well as for the relevant persons within the meaning of the Civil Code.

§ 3. When starting work or signing the relevant contract, each person familiarizes himself with the Rules and undertakes to comply with them.



§ 4. These Rules for the organization and powers of the "Regulatory Compliance" Department of investment intermediary II "FACTORI" AD were adopted by the Board of Directors at a meeting held on 05/02/2018.