



I N F O R M A T I O N

**regarding the financial instruments –fixed
income securities, subject to the investment
services carried out by Deltastock and the risks
involved**

I. GENERAL PROVISIONS

- Art. 1.** This Information regarding the financial instruments – fixed income securities, subject to the investment services carried out by Deltastock and the risks involved (hereinafter referred to as the “Information”) has been developed on the basis and in accordance with the provisions of Art. 48, in connection with Art. 46 of Commission Delegated Regulation (EU) 2017/565 of 25 April 2016 supplementing Directive 2014/65/EU of the European Parliament and of the Council as regards organisational requirements and operating conditions for investment firms and defined terms for the purposes of that Directive (Delegated Regulation 2017/565), and Art. 71, Para. 2, Item 2, Para. 4 and Para.7 from the Markets in Financial Instruments Act (MiFIA), as well as in accordance with the provisions in Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU (MiFID II) and particularly to Art. 24, Para. 4.
- Art. 2.** The information is prepared in accordance with the nature, scale and complexity of the business activities performed by Deltastock.
- Art. 3.** The information is applicable to the Agreement between Deltastock and its professional clients and eligible counterparties which regulates trading in fixed income securities.
- Art. 4.** Deltastock offers its clients the opportunity to trade in fixed income securities by paying the full value of the financial instrument.
- Art. 5.** Deltastock offers its clients the following types of fixed income securities on a primary and a secondary market as follows:
- a)** Government bonds issued by the Republic of Bulgaria and corporate bonds of Bulgarian legal persons – on a secondary market and;
 - b)** Government bonds issued by other countries, different than the Republic of Bulgaria and corporate bonds of foreign legal persons on a primary and a secondary market.
- Art. 6.** Deltastock does not offer investment strategies to its clients.

Art. 7. Deltastock does not offer investment research, financial analysis and other types of advice related to the investment activities of its clients, nor related to regulatory, legal and/or tax matters.

Art. 8. In cases when Deltastock provides information to its clients reflecting the current condition of the different markets, this information shall be perceived by the client solely as a disclosure of information relative to the respective instrument and/or underlying asset, and this service is provided solely for the convenience of the clients, and it has only informative character and is not a recommendation to conclude a transaction or refrain from such.

Art. 9. Deltastock provides investment services and activities with fixed income securities and ancillary services related to these financial instruments only to professional clients and eligible counterparties. This is why the client should carefully assess whether the services offered by Deltastock are suitable for them and whether to take advantage of them.

Deltastock warns: if, despite the client being categorised as a professional client, they do not have experience in trading with fixed income securities, before commencing live trading which might bring financial losses, it is advisable that they become familiar with the specificities of this type of trading.

II. INFORMATION ON THE FINANCIAL INSTRUMENTS –FIXED INCOME SECURITIES – SUBJECT TO THE INVESTMENT SERVICES AND ACTIVITIES CARRIED OUT BY DELTATOCK

Art. 10. Deltastock offers for trading the following class of financial instruments, according to the classification under Annex I from Commission Delegated Regulation (EU) 2017/576 of 8 June 2016 supplementing Directive 2014/65/EU of the European Parliament and of the Council with regard to regulatory technical standards for the annual publication by investment firms of information on the identity of execution venues and on the quality of execution: “Fixed Income Securities”, subclass “Bonds”.

Art. 11. Deltastock offers to its clients the following types of fixed income securities:

a) Government bonds issued by the Republic of Bulgaria or other countries;

- b)** Corporate bonds of Bulgarian and foreign legal persons;
- Art. 12.** Deltastock is the counterparty to each deal with fixed income securities in **Art. 11** and all client orders are executed against the own liquidity of the investment intermediary.
- Art. 13.** Deltastock does not transfer (route, direct, send) client orders for trading with the instruments under **Art. 11** to another execution venue.
- Art. 14.** Deltastock executes trading orders with the instruments under **Art. 4** on a secondary market through a multilateral trading facility (MTF) or an over-the-counter (OTC) market, as well as on a primary market through an OTC market as:
 - a)** On a primary market – the investment intermediary participates on the primary market on own behalf and account by submitting an order and acquiring the fixed income securities, for which it has a preliminary pronounced interest from the client. After acquiring the respective securities Deltastock provides them to the client through a deal in which it is the principal (counterparty), in accordance with the approved conditions of the primary offering and the respective service fees;
 - b)** On a secondary market – in the case of execution on an MTF the intermediary acts as a principal (counterparty) to each deal, with the prices of the trade are determined (quoted) by Deltastock and not by the counter-interest of another client;
 - c)** On a secondary market – in the case of execution on an OTC market the intermediary acts as the single execution venue and as a principal (counterparty) to each deal, with the prices of the trade are determined (quoted) by Deltastock and not by the counter-interest of another client.
- Art. 15.** Deltastock accepts and executes the client trading orders for fixed income securities on a primary market in the order of their entry and at the conditions of the Policy for Execution of Client Orders of Deltastock applicable to the Agreements for trading in fixed income securities on a primary market.
- Art. 16.** Deltastock accepts and executes the client trading orders for fixed income securities on a secondary market in the order of their entry. However, it is irrelevant whether the order of one client has entered and been accepted before

the order of another client, as in trading with instruments under [Art. 11](#), Deltastock is the counterparty to each deal and all client orders for trading in fixed income securities on a secondary market are executed against the own liquidity of the investment intermediary.

Art. 17. Safekeeping and administration of financial instruments on account of the client, including custodial activities and the related and ancillary services carried out by Deltastock have the following characteristics:

- a) the investment intermediary does not keep the client funds related to fixed income securities, but deposits them with persons under Art. 93 of MiFIA, where these persons are not subsidiaries of the investment intermediary;
- b) the investment intermediary keeps the fixed income securities of the client in a depository institution under Art. 94 of MiFIA in client sub-accounts to its own account or accounts opened to the accounts of a third party;

Art. 18. The corporate bonds subject to the investment services offered by Deltastock have the following characteristics:

- a) are dematerialised, i.e. Deltastock stores the client fixed income securities in accordance with [Art. 17, letter “b”](#);
- b) they objectify liabilities (debt) of their issuer – local or foreign legal person – to their holder (client);
- c) give the right to their holder to receive the nominal value (principal) at the maturity date and coupon (interest) related to the part of the corporate contractual debt held.

Art. 19. The nominal value or the principal of the corporate bonds is the sum that the holder will receive at the maturity date of the corporate bond. The newly issued bonds are sold at nominal value. The nominal value of the bond is not its price.

Art. 20. The price of the bond varies through the entire period until its maturity. When one bond is traded at a price higher than its nominal value, it is traded at a premium. When the bond is traded at a price lower than the nominal value, it is traded at a discount.

Art. 21. A coupon or interest is the sum, which the holder of corporate bond will receive as an interest (remuneration for the loan provided to the issuer). When the coupon is announced as a percentage of the nominal value, the bond is with a fixed interest. For example, if one bond yields coupon of 10% and the nominal value is 1 000 conditional units, then the holders will receive a coupon of 100 units. It is possible that the coupon payment be corrected periodically. In such case the bond is with a floating interest and most frequently depends on a specific indicator for a market interest, for example the Euribor index. Depending on the conditions of the emission, the interest payments on a bond can be monthly, quarterly, six-monthly or annual. Most bond issues offer interest payments every six months.

Art. 22. Maturity or maturity date is the date on which the holder will receive the principal on the corporate bond. The maturity period may vary from several days to several years. The price of a bond with a longer maturity will fluctuate more than the price of a bond with a shorter maturity period. Since the payments on the bond at other equal conditions depend on the stability of its issuer, the short maturity period bring less risk to the holder.

Art. 23. The government bonds issued by the Republic of Bulgaria or other countries are subject to the investment services and activities offered by Deltastock are characterised by the following:

- a) they are fixed income securities containing the principal legal characteristics of corporate fixed income securities, but differ mainly in the fact that their issuer is the Republic of Bulgaria or another country. They are issued by a government body;
- b) the holder of government bonds receives interest payments on fixed dates, based on a coupon percentage determined in advance and a payment of nominal value (principal) on the maturity date of the security;
- c) the government bonds are guaranteed by the respective country that issues them and for this reason they are believed to be an investment with very low risk. They also provide a considerable protection of the investment, but also bring lower return, compared to other fixed income securities (the corporate fixed income securities in particular);

- d) they have a maturity period as follows: 1 year or the so-called short term government bonds, between 1 and 5 years, called medium term government bonds and over 5 years, long term government bonds, respectively;
- e) the base currency in which the issued government bonds are offered, are Bulgarian lev (BGN) and Euro, but it is also possible that the investment intermediary offers bonds issued in other base currency.

III. INFORMATION ABOUT THE RISKS RELATED TO THE FINANCIAL INSTRUMENTS – FIXED INCOME SECURITIES – WHICH ARE SUBJECT TO THE INVESTMENT SERVICES CARRIED OUT BY DELTASTOCK

Art. 24. Trading in financial instruments – fixed income securities brings risks and is not suitable for every investor.

Art. 25. Trading in financial instruments – fixed income securities by default is suitable for investors seeking long-term investments.

Art. 26. Clients investing in the fixed income securities offered by Deltastock must bear in mind that the yield of the investment, besides its parameters and the market conditions, is also affected by the fees, commissions and interests deducted by the investment intermediary. They are specified in the Tariff for Deals with Fixed Income Securities and the Related Investment Services and Activities and Ancillary Services of Deltastock.

The information about fees, commissions and interests for trading in fixed income securities is published and freely available on the website of Deltastock (www.deltastock.com).

Art. 27. The financial instruments – fixed income securities – are offered by Deltastock to professional clients and eligible counterparties. Considering this, inasmuch as this type of persons fall within the scope of Art. 77d of the Public Offering of Securities Act, they are excluded from the compensatory protection provided by the Investor Compensation Fund.

Art. 28. The risks typical of the class financial instruments offered by Deltastock – corporate bonds of Bulgarian and foreign legal persons mainly are:

- a) market risk;

- b) liquidity risk;
- c) currency risk;
- d) issuer risk;
- e) risk related to settlement.

Art. 29. The market risk of corporate bonds mainly results from the possible negative change of the market interest rates affecting the issued fixed income securities with a fixed or floating interest rate. The short-term corporate bonds usually are associated with lower risk, whereas the long-term corporate bonds are associated with higher levels of risk for its holders, due to the different time period in which they are exposed to changes in the market interest rates.

Art. 30. The liquidity risk of corporate bonds is associated with the risk of inability to sell the acquired fixed income securities due to lack of buyers wishing to acquire the instrument at the offered price or the need of time for this. The liquidity risk of this type of instrument is determined by the market depth, i.e. limited volumes of traded bond debts and may lead to possible price drop.

Art. 31. The currency risk of corporate bonds stems from changes to the exchange rates of the currency of the respective investment and the local currency of the investor. In this sense, a rise or drop of the rate may bring profit or loss to the investor. Due to the presence of a currency board in the Republic of Bulgaria, the currency risk related to the offered fixed income securities is lower when the investment is issued in Lev (BGN) and Euro as base currency. For fixed income securities issued in another base currency, the currency risk will depend on the movement of the currency rates.

Art. 32. The issuer risk is related with the possibility that the issuer of the corporate bond (issuing company) becomes insolvent and as a result of this is unable to pay out the principal and the interest of the bond debt, i.e. to be unable to service the debt fully or at the given parameters.

Art. 33. The settlement risk of corporate bonds is linked to the risk of a delay or non-execution of the deal settlement on the counterparty's fault. As in most cases the deals between the parties are concluded by applying the method "delivery versus payment" (DVP), there should not be a buyer who obtained the instrument

without paying its price or vice versa. Hence the liquidity risk of a deal with the instruments on offer stems from the possibility of adverse market consequences in the time frame between the conclusion of the deal and its settlement.

Art. 34. The risks typical of the class financial instruments offered by Deltastock – government bonds issued by the Republic of Bulgaria or other country are the same as those related to the corporate bonds. It is worth noting that usually the market of government securities is very liquid, as well as that the risk related to the issuer is usually considered lower than the risk associated with other fixed income securities. The settlement risk is practically non-existent.

Art. 35. The main risks associated with the government bonds on offer are:

- a) market risk;
- b) liquidity risk;
- c) issuer risk.

Art. 36. The market risk of the government bonds is associated with the probability of increase (change) in the market interest rates in relation to the fixed interest rate of the issued fixed income securities. Depending on the maturity of the government bonds, the ones with shorter terms are characterised with lower market (interest) risk and on the contrary – the long-term ones are associated with a higher market (interest) risk.

Art. 37. The liquidity risk of the government bonds is lower in comparison with that of other fixed income securities, as the market of government bonds is presumed highly liquid and more secure.

Art. 38. The issuer risk of government bonds is lower in comparison with that of other fixed income securities, as the issuer is a country and the risk of it having financial problems and inability to pay out the principal and the interests on the fixed income securities is lower.

Art. 39. Other risks common for the fixed income securities offered under **Art. 11:**

- a) Operational risk – risk of direct or indirect loss resulting from inadequate internal control, human error, organisational or external event. This risk includes human error, malicious acts of employees, information system failure, problems related to

human resource management, company activities, as well as external events as accidents, fires, floods and others that may affect to a different extent the risk of the debt instruments offered by Deltastock;

- b) Legal risk – risk of insecurity resulting from legal acts or insecurity regarding the applicability of agreements, legal acts, for legality of the contract, legal capacity of the party to conclude a contract. This risk is inherent to debt instruments offered by an investment intermediary.
- c) Political risk – this risk consists of the possibility of the respective government introducing new regulatory or legal obligations affecting the instruments held by the respective investor. With regard to the government bonds, this risk is associated with political and economic stability of the state issuing the debt.

Art. 40. The client should have in mind that the description of the different types of risk related to the fixed income securities offered by Deltastock is not exhaustive and contains only the most typical types of risk and their main description. The existence of other types of risk, risk manifestations and characteristics that are not included in the present Information is also possible. They can be the result of unexpected market conditions or investment behaviour of the client.

If there is need of clarifications of other aspects of the common or specific characteristics and risks related to the fixed income securities offered by Deltastock under **Art. 11**, the investment intermediary is ready to provide additional information on request.

VI. FINAL PROVISIONS

Art. 41. The information is not a part of the Agreement for Trading in Fixed Income Securities between the client and Deltastock nor is it applicable to the General Terms of Business Applicable to the Agreements for Trading in Fixed Income Securities of Deltastock, but an independent document. Deltastock provides the client with Information, along with other documents which he/she must review before signing his/her agreement.

Art. 42. A review of this Information is done at least annually, as well as during each substantial change.

- Art. 43.** The latest version of this Information is available in the office and on the website of Deltastock. (www.deltastock.com). Deltastock informs its clients through the website for any substantial changes in the Information or for the adoption of a new one.
- Art. 44.** This document has been adopted by the Management Board of Deltastock at a meeting held on 14 June, 2019 and is effective from the same date.





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