TerraLex

Cross-Border Guide to ESG and Sustainable Finance

Bulgaria

Authors

Contributed by:	Djingov Gouginski Kyutchukov & Velichkov: Bulgaria Gergana Monovska
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What are the key statutory environmental, social, and governance disclosure obligations in your jurisdiction?	The following statutory environmental, social, and governance disclosure ("ESG") obligations currently apply in Bulgaria:

Transparency on non-financial matters

There is a general requirement applicable to Bulgarian undertakings (with the exception of micro, small, and medium-sized undertakings,) to include in their annual activity reports information on non-financial indicators such as environmental issues and issues related to the employees. In addition to that, there are more specific ESG reporting requirements applicable to special categories of undertakings, such as:

Specific disclosure requirements apply to Bulgarian Public Interest Entities (PIEs), such as companies with securities listed on a regulated market in the EU, credit institutions, insurance or reinsurance companies, large pension insurance companies and pension funds, large investment intermediaries. Pursuant to Article 41 of the Bulgarian Accountancy Act (AA) large PIEs that they have more than 500 employees, are required to include in their annual activity reports a non-financial statement containing information on the impact of their activities on the environment, social and employment issues, respect for human rights, and the fight against corruption and bribery. The statement must also include, inter alia, description of the policies, which the undertaking has adopted and applies in relation to these issues, including the due diligence processes performed, the results of these policies, the main ESG risks stemming from its activity and the measures taken to prevent them. If the undertaking does not apply policies in relation to any of these ESG issues, the non-financial statement should provide a clear reasoning for not doing so.

The foregoing requirement applies on consolidated basis to the consolidated annual reports of PIEs, which are parent undertakings in a large group, whose average number of employees by 31 December of each financial year exceeds 500 on a consolidated basis. In this case the foregoing reporting requirements will not apply to its subsidiaries.

In addition, EU-listed Bulgarian companies, credit institutions, as well as insurers and reinsurers are required to include in their annual reports a corporate governance statement under the Bulgarian Public Offering of Securities Act (POSA).

According to the POSA the obligation to publish a corporate governance statement applies to all public companies and should contain information, inter alia, on whether the com-

pany complies with the Corporate Governance Code adopted by the Financial Supervision Commission (FSC) or another equivalent code (the Code) or clear reasoning for not doing so. The corporate governance statement should also describe the diversity policy concerning the age, gender, education, and experience of the members of the administrative, management and supervisory bodies of the company.

Taxonomy Compliance Disclosures

Pursuant to Article 8 of Regulation (EU) 2020/852 (the "Taxonomy Regulation") undertakings which are subject to an obligation to publish non-financial information pursuant to Article 19a or Article 29a of Directive 2013/34/EU (the NFRD) (e.g. large PIEs, parent undertakings of large groups) are required to include in their non-financial reports information on how and to what extent the undertaking's activities are associated with economic activities that qualify as environmentally sustainable under the Taxonomy Regulation. The requirements to Taxonomy Compliance Disclosures are further set out by Commission delegated Regulation (EU) 2021/2178 ("Disclosures Delegated Act") which includes the KPIs and reporting templates to be applied by financial and non-financial institutions.

Disclosures under Regulation (EU) 2019/2088 (the Sustainable Finance Disclosure Regulation or SFDR)

The SFDR sets out mandatory ESG disclosure obligations applicable to all Financial Market Participants ("FMPs") within the meaning of the SFDR such as AIFMs, UCITs, fund managers, management companies, portfolio managers, pension funds and investment advisors, etc. Disclosure obligations apply on "comply or explain" basis. Disclosures should be made both at entity level and product level, meaning that FMPs are obliged to report on the integration of sustainable practices within their entire business but also on the ESG-characteristics of each product that they offer within the EU. For the purpose of product-related reporting the Regulation divides financial products into three categories explained in Articles 6, 8, and 9 depending on whether and to what extent the products make ESG claims and target sustainable investment.

The SFDR also introduces different channels through which disclosures should be made depending on whether they concern the business as a whole or a specific product of a given category, i.e., the entity's website, pre-contractual documentation, and periodic reports. In addition, the start of the application of the SFDR also varies for each type of disclosure. For instance, disclosures for Article 8 and 9 products, i.e., those who either promote ESG characteristics or have for objective sustainable investments must contain extensive information on the products' environmental and social characteristics, objectives, and methods for determining those characteristics. This information must be provided in pre-contractual documents and periodic reports as of 1 January 2023.

Clarification of the specific information that needs to be disclosed under the SFDR as well as templates are provided in Regulatory Technical Standards adopted by the European Supervisory Authorities (EBA, EIOPA and ESMA).

Transparency in raw material companies

Article 53 of the AA requires large companies and PIEs that are involved in the extraction of minerals, oil or natural gas, or the harvesting of timber in primary forests, to prepare an annual report on the payments they have made to government entities in connection with their business activities in these areas.

If a company is subject to preparing consolidated financial statements, it must also prepare a consolidated report about

	payments to "state bodies" unless the company is already reflected in a consolidated group payments report. It is irrelevant whether the payments are single payments or payments in several instalments if they make up at least BGN 195 600. Additionally, the term "state bodies" covers national, regional, or municipal authorities in any country as well as departments and businesses controlled by such authorities.
Are there any important voluntary environmental, social, and governance disclosures in your jurisdiction, beyond those required by law or regulation?	Total Tax Contributions Report (TTCR) The TTDR is a voluntary framework for the disclosure of selected and targeted information on a company's tax policy, tax risk management, and most importantly on the amount of corporate and indirect taxes effectively paid by the company. Given the serious tax evasion issues entailing social discontent in the country this framework gains popularity among large companies who are responsible taxpayers and want to demonstrate corporate responsibility and good governance. ESG index of the Bulgarian Stock Exchange (BSE) (to be launched) The BSE announced that it is preparing its own ESG index in partnership with Refinitiv, one of the world's largest providers of financial markets data and infrastructure. The future index will be open exclusively to Bulgarian public companies and will aim to attract ESG-conscious investors to invest in the country. The criteria for assessment under the index are yet to be announced.
What are the frequently used frameworks for ESG disclosures in your jurisdiction (e.g., GRI, SASB, TCFD recommendations, etc.)?	Bulgarian companies recognize popular international ESG frameworks such as: UN Global Compact (UNGC) UNGC is a framework which requires companies to comply in their operations with Ten Principles covering human rights, labour rights, environment, and anti-corruption. They are based on and aim the fulfilment of the 2030 Agenda for Sustainable Development and the Paris Agreement. Global Reporting Initiative (GRI) The GRI is among the most reputable and comprehensive sustainability reporting standards. It covers broad areas such as tax, waste management, emissions, diversity and equality, health, and safety, etc. International Standard Organization ISO The ISO offers certification in several ESG related standards: ISO 14 001 – environmental management; ISO 37000 and the following – good governance of organizations, anti-bribery, and whistleblowing management systems; ISO 26 000 on social responsibility, ISO 50001 – efficient energy management, etc. OECD Guidelines for multinational enterprises The guidelines give recommendations addressed by national governments to multinational companies operating in or from adhering countries promoting responsible business conduct in a global context. International Council for Integrated Reporting The International Council for Integrated Reporting provides a set of principles and rules aimed to connect financial statements and sustainability-related financial disclosures.
What are the key statutory environmental, social, and governance obligations requiring action other than disclosure in your jurisdiction?	Examples of key statutory ESG obligations which would require actions other than disclosure:

	Diversity policies in banks and investment intermediaries Investment intermediaries and credit institutions are required to ensure equal opportunities for access into their management and supervisory bodies to persons with different backgrounds in terms of age, gender, education, and professional qualifications, etc. For that purpose, they are required to adopt and effectively apply diversity policies applicable to the appointment of the members of their management and supervisory bodies. Credit institutions and significant investment intermediaries are required to include in their diversity policies a target level for representation of the under-represented gender in their governing bodies. Where the target level has not been achieved a reasonable time-period for its accomplishment should be provided along with suitable measures. Public procurement One of the criteria for awarding public procurement provided in the Bulgarian Public Procurement Act is the optimal correlation between quality and price, which is measured also on the basis of environmental and social factors related to the subject of the procurement.
Do ESG rules in your jurisdiction have extraterritorial effect?	The ESG reporting obligations stemming from national law apply only to Bulgaria – based entities. Disclosure obligations introduced by directly applicable EU law such as the SFDR and the Taxonomy Regulation apply not only to EU-based entities but also to third-country companies who provide services in the EU.
Are there any specific regulations in your jurisdiction regarding advertising with ESG claims?	No, there is no specific legislation regarding advertising with ESG claims. However, the general rules on misleading advertising shall apply also when an advertisement contains misleading ESG claims. Misleading advertising is prohibited both by the Protection of Competition Act (PCA) and the Consumer Protection Act (CPA) as a type of misleading commercial practice. Under the PCA misleading advertising is any advertising which in any way, including with its presentation, misleads or may mislead its addressees and may influence their economic behaviour to the detriment of competitors. The CPA qualifies a commercial practice, including an advertisement, as misleading if (i) it contains false information and is therefore untruthful or in any way, including overall presentation, (ii) deceives or is likely to deceive the average consumer, even if the information is factually correct, in relation to one or more of the elements indicated in Art. 68e (2) CPA, and (iii) in either case causes or is likely to cause a consumer to take a transactional decision that he would not have taken otherwise. Article 68e (2), item 2 indicates that among the relevant elements of the product or service are their main characteristics, such as advantages, risks, composition, the results to be expected from their use or the results and material features of tests or checks of the product or service. Although there is currently no case law of the Commission for Protection of Competition (CPC) and the Commission for Consumer Protection (CCP) on misleading ESG claims in the financial sector, it is likely that the ESG characteristics of a financial product or service shall be considered to be among their main characteristics within the meaning of Art. 68e (2), item 2 CPA. Based on these provisions, all information about the offered products and services must be correct, verifiable, and backed by recognized scientific evidence.
Is it required in your jurisdiction to impose special ESG rights and/or obligations on suppliers (e.g., contractual clauses pursuant to UK Modern Slavery Act)?	No, there is no legislation in Bulgaria imposing specific ESG-related obligations on suppliers. However, the ESG-related rules of environmental law, labour law, criminal law (e.g., anti-corruption, prohibition of human trafficking, anti-money laundering), anti-discrimination law etc. apply accordingly.

Can shareholders/investors hold a company/entity or its corporate bodies/representatives liable when positive ESG efforts of such company (e.g., initiatives to achieve net zero) cause loss to the company and/or them?	There are no special ESG-related liability regulations in Bulgaria and general corporate law rules would apply. Bulgarian corporate law provides for general avenues of redress where the company has suffered damages as a consequence of a breach of fiduciary duty by the members of its corporate bodies/representatives, including when this behaviour relates to the ESG policies of the company. The action seeking compensation for damages may be brought by the company itself, but derivative claims are available to the shareholders as well. Thus, Article 240a of the Commerce Act (CA) entitles the shareholders in a joint stock company owning at least 10% of the shares to file a claim for damages on behalf of the company against members of the board of directors or the supervisory or managing board, who by act or omission in breach of their fiduciary duties have caused damages to the company. Derivative claims for damages caused to a public (listed) company by the members of its management and supervisory bodies are available to shareholders holding at least 5 per cent of its capital (Article 118 (2)(1) of the Public Offering of Securities Act (POSA)). Pursuant to Article 118a of POSA persons who exercise control over the public (listed) company are jointly and severally liable with the members of the management and supervisory bodies where the former have used their influence to induce the latter to act or refrain from acting in the best interest of the company. In a limited liability company, the damages claim against its management can be brought on behalf of the company subject to a decision of the General Meeting of shareholders adopted with a majority of more than 50% of the shares, unless otherwise provided in the articles of association. The liability of management and supervisory bodies of joint stock and limited liability companies is contractual and covers all foreseeable damages which are a direct consequence of an act or omission committed in breach of the duty of care / fiduciary duty, caused by negligence or wilful misconduct. Against this backdrop, the claim can only be successful if the defendant has breached the applicable laws or the internal rules of the company or failed to comply with a shareholder's resolution by negligence or wilful misconduct and the damage is a direct consequence of this conduct. Thus, adverse economic consequences for the company such as financial losses, decrease in the value, etc. are not sufficient to render the representatives/corporate bodies of the company liable unless they are caused by a breach of the duty of care. Hypothetically, if the representative/member of a corporate body of the company takes certain ESG-related actions, which are not required by law, in breach of explicit provisions of the internal acts and policies of the company, they can be held accountable if it does not bring value to the company but ensue losses to the company. However, the burden of proof is very high, and the action can only seek damages caused to the company and not to its shareholders.
Can shareholders/investors hold a company/entity or its corporate bodies/representatives liable when non-compliance with ESG rules causes loss to the company and/or them?	There are no special ESG-related liability regulations in Bulgaria and general corporate and civil law rules would apply. Corporate law Bulgarian corporate law provides for general avenues of redress where the company has suffered damages as a consequence of a breach of fiduciary duty by the members of its corporate bodies/representatives, including when this behaviour relates to the ESG policies of the company. The action seeking compensation for damages may be brought by the company itself, but derivative claims are available to the shareholders owning at least 10 % of the capital in a private company or 5 % of the capital in a listed company as well.

	Persons who exercise control over the public (listed) company are jointly and severally liable with the members of the management and supervisory bodies where the former have used their influence to induce the latter to act or refrain from acting in the best interest of the company. The liability of management and supervisory bodies of joint stock and limited liability companies is contractual and covers all foreseeable damages which are a direct consequence of an act or omission committed in breach of the duty of care / fiduciary duty (such as breach of applicable laws or internal rules of the company or failure to comply with shareholder resolutions, caused by negligence or wilful misconduct. Therefore, if for example the company has suffered damages as a result of non-compliance with statutory ESG rules or disregard of internal ESG policies on the part of a member the corporate bodies of the company, which caused damages to the company, they can be held liable. Unfair competition Any natural or legal person who has suffered damages as a result of an infringement of competition law (e.g., misleading advertising through greenwashing), including shareholders and investors, is entitled to refer the matter to the Commission for Protection of Competition and file a claim for damages before the civil courts.
Can customers, creditors, or other affected parties hold a company/entity or its corporate bodies/representatives liable when non-compliance with ESG rules causes loss to them?	There are no specific ESG-related liability rules in Bulgaria. However, the following general legal remedies can also apply where damages are caused due to non-compliance with ESG rules. Unfair competition Pursuant to Article 105 of the PCA any natural or legal person who has suffered damages as a result of an infringement of competition law is entitled to full compensation. Based on this provision, for instance, customers, creditors, or competitors of an undertaking which has engaged in misleading advertising by making unbacked ESG claims, can request compensation for all damages they have suffered as a result of the infringement. The claim can be filed irrespective of whether there is a final decision of the competition authority establishing the existence of a violation. The presence of such a decision, however, alleviates considerably the burden of proof for the claimant because it is binding on the court as to the fact of the infringement, and the identity of the infringer. General tort Any company, whose unlawful act or omission by willful misconduct or negligence causes damages to another person which are directly result from the unlawful act or omission (there is a casual link between them) may be held liable to compensate these damages under the general rules of Bulgarian tort law.
If there are no ESG rules in your jurisdiction, is there any analogous regulation or regulatory initiative?	N/A
Has your jurisdiction reviewed its statutory framework to identify any prohibitions or restrictions that would prevent a company/entity from pursuing ESG initiatives?	No.
What statutory sustainable finance and investment frameworks are followed in your jurisdiction regarding ESG indicators (i.e., how a company oper-	Being an EU Member State, Bulgaria implements the EU legislation regarding ESG and impact indicators, such as the EU Taxonomy and SFDR. EU Taxonomy Classification

ates) and impact indicators (i.e., what a company achieves with its products and services)?

Regulation (EU) 2020/852 (the “Taxonomy Regulation”) introduces a classification system (EU Taxonomy) for environmentally sustainable economic activities. The current focus of the Taxonomy Regulation is on classifying relevant activities into two fundamental categories: climate change mitigation (Mitigation) and climate change adaptation (Adaptation). An economic activity aligns with the EU Taxonomy if it can be demonstrated that it meets the following four performance requirements:

- the activity contributes substantially towards to one or more of the following six environmental objectives: (1) Climate change mitigation; (2) Climate change adaptation; (3) The sustainable use and protection of water and marine resources; (4) transition to a circular economy; (5) Pollution prevention and control; (6) protection and restoration of biodiversity and ecosystems.
- the activity does not significantly harm any of these environmental objectives (DNSH);
- the activity is carried out in compliance with the minimum safeguards (minimum social standards or MSS) (such as adherence to international social and business standards and conventions); and
- the activity complies with technical screening criteria established by the EU Commission (TSC).

The technical screening criteria for first two environmental objectives including the criteria for determining whether significant harm is being caused for any of these objectives are developed by the EU Commission in its Commission Delegated Regulation (EU) 2021/2139 (“Climate Delegated Act”).

The EU Taxonomy recognises three different types of environmentally sustainable economic activities:

- Activities that in and of themselves contribute substantially to one of the six environmental objectives.
- Transition activities: These are activities for which there are no technologically and economically feasible low-carbon alternatives, but that support the transition to a climate-neutral economy.
- Enabling activities: activities that enable other activities to make a substantial contribution to one or more of the objectives.

Financial Market Participants (“FMPs”) subject to the ESG disclosure requirements under Regulation (EU) 2019/2088 (the Sustainable Finance Disclosure Regulation or SFDR), such as AIFMs, UCITs, fund managers, management companies, portfolio managers, pension funds and investment advisors, etc., are required to comply with the EU Taxonomy when classifying their products and activities.

Taxonomy Compliance Disclosures

Pursuant to Article 8 of the Taxonomy Regulation all undertakings which are subject to an obligation to publish non-financial information pursuant to Article 19a or Article 29a of Directive 2013/34/EU (the NFRD) (e.g. large PIEs, parent undertakings of large groups) are required to include in their non-financial reports information on how and to what extent the undertaking’s activities are associated with economic activities that qualify as environmentally sustainable under the Taxonomy Regulation (“Taxonomy Compliance Disclosures”).

The requirements to Taxonomy Compliance Disclosures are further set out by Commission Delegated Regulation (EU) 2021/2178 (“Disclosures Delegated Act”), which included KPIs and reporting templates to be applied by financial and non-financial institutions. By way of an example, the main KPI for banks is the Green Asset Ratio (GAR) which shows the

proportion of exposures related to Taxonomy-aligned activities compared with the total covered assets of those banks. Exposures to undertakings which are not obliged to publish non-financial information (such as non-EU undertakings and undertakings which are not listed on a regulated market in the EU) are not considered in the GAR numerator.

For a Taxonomy-eligible activity to be Taxonomy-aligned, it needs to Substantially Contribute (SC) to one of the six environmental objectives (complying with the relevant screening criteria), as well as to comply with the Do No Significant Harm (DNSH) and Minimum Safeguards (MS) criteria. An activity that is Taxonomy-eligible but not Taxonomy-aligned is an activity that is listed in the Climate Delegated Act but does not comply with one or more of the criteria indicated above.

From 1 January 2023 non-financial undertakings are required to disclose both Taxonomy eligibility and alignment, including KPIs and accompanying information under the Disclosures Delegated Act.

For the reporting period from 1 January 2022 until 31 December 2023, financial undertakings are required to disclose only (i) the proportion in their total assets of exposures to Taxonomy non-eligible and Taxonomy-eligible economic activities, (ii) the proportion in their total assets of the exposures to central governments, central banks, and supranational issuers and derivatives, (iii) the proportion in their total assets of the exposures to undertakings which are not obliged to publish non-financial information, (iv) some further qualitative information. Credit institutions are also expected to disclose the proportion of their trading portfolio and on-demand interbank loans in their total assets.

From January 2024 onward, financial undertakings should report both Taxonomy eligibility and alignment including KPIs and accompanying information under the Disclosures Delegated Act.

Disclosures under SFDR

The SFDR sets out mandatory ESG disclosure obligations applicable to all Financial Market Participants (“FMPs”) within the meaning of the SFDR such as AIFMs, UCITs, fund managers, management companies, portfolio managers, pension funds and investment advisors, etc. Disclosure obligations apply on “comply or explain” basis.

Disclosures should be made both at entity level and product level, meaning that FMPs are obliged to report on the integration of sustainable practices within their entire business but also on the ESG-characteristics of each product that they offer within the EU.

The SFDR introduces different channels through which disclosures should be made depending on whether they concern the business as a whole or a specific product of a given category, i.e., the entity’s website, pre-contractual documentation, and periodic reports.

The SFDR requires, inter alia, FMPs to publish their policies which they should apply on comply or explain basis regarding the consideration of principal adverse impacts of investment decisions on sustainability factors, transparency of remuneration policy in relation to the integration of sustainability risks and others.

Disclosure of pre-contractual information is introduced for example by Article 6 of the SFDR. These disclosures are implemented on comply or explain basis and relate to how sustainability risks are integrated into the investment decisions and the results of the assessment of the likely impact of the risks on financial returns of the products.

	For the purpose of product-related reporting the Regulation divides financial products into three categories explained in Articles 6, 8, and 9 depending on whether and to what extent the products make ESG claims and target sustainable investment. Firstly, products that neither have sustainable investment objective, nor do they embrace investment in assets with environmental or social benefits. Secondly, products that promote investments or projects with positive environment or social characteristics and with good governance principles (Article 8). Lastly, products that target a sustainable investment primary objective (Article 9). FMPs must disclose the methodologies used to assess the financial products. Information is to be disclosed through different channels for the different market participants, for example in annual reports. Delegated Regulation (EU) 2022/1288 sets out technical standards on the content and layout of information in relation to disclosures on websites, in pre-contractual documents and periodic reports for financial products investing in environmentally sustainable economic activities. The purpose of the disclosures is primarily focused on guaranteeing the transparency around sustainability claims in the financial market as well as preventing greenwashing and aiming at facilitating capital flow towards sustainable investment.
What voluntary sustainable finance and investment frameworks are followed in your jurisdiction regarding ESG indicators (i.e., how a company operates) and impact indicators (i.e., what a company achieves with its products and services)?	Below we give examples of voluntary sustainable finance and investment frameworks followed by market participants in Bulgaria: Principles of Responsible Banking The Principles of Responsible Banking (PRB) were developed with the support of UN Environment Program Finance Initiative (UNEP FI). With over 300 signatory banks, the PRB are the world's foremost sustainable banking framework. Through the Principles, banks take action to align their core strategy, decision-making, lending and investment with the UN Sustainable Development Goals, and international agreements such as the Paris Climate Agreement. PRB include the Net-Zero Banking Alliance, which is the climate-focused initiative of this global framework. The PRB is designed to be integrated into banks' strategies and across their portfolio of activities, bringing purpose, vision, and ambition on sustainable finance to the core of the organisation. National Code of Corporate Governance The National Code of Corporate Governance is an act of the Financial Supervision Commission, which is not binding while its provisions are only recommended for companies. Its main focus is to provide guidance on corporate governance, such as the structuring of governing bodies in way as to prevent conflict of interest and policies on remuneration of members of governing bodies, equal treatment of the shareholders and other provisions. In line with new trends in corporate governance, in 2021 the Code introduced two new chapters, one on financial and non-financial reporting, and one on stakeholders and sustainable development. The amended Code now gives guidelines for disclosing non-financial information such as directions to include in the company's annual reports information on how and to what extent a company's activities qualify as environmentally sustainable. EU Commission Guidelines The EU Commission has also published Guidelines on non-financial reporting: supplement on reporting climate-related in-

	formation to assist companies concerned to disclose non-financial information in a relevant, useful, consistent, and more comparable manner. The Guidelines are non-binding.
Are financial institutions, investment advisors, and/or pension institutions in your jurisdiction required to consider ESG factors when making investment decisions or recommendations?	Bulgarian legislation provides specific requirements to consider ESG factors when making investment decisions or recommendations. Investment intermediaries and banks providing portfolio management services, insurers and reinsurers who provide life insurance products, as well as pension insurance companies and UCITs management companies should publish on their websites engagement policies, in which they explain how ESG considerations are integrated in their investment strategy when it comes to equity participation in other companies. This includes a description of the social and environmental impact of the companies in which they invest, their corporate governance and how actual or potential conflicts of interest are tackled. The publication of this statement is not fully mandatory but the "comply or explain" principle applies. These companies are required to publish on an annual basis a report on the implementation of their engagement policies. The non-financial information includes the monitoring of relevant aspects of the performance of the companies in which it invests, including strategy, financial and non-financial performance and risk, capital structure and social impact, environmental impact, and corporate governance. In accordance with Delegated Regulation (EU) No 231/2013 and Delegated Directive (EU) 2021/1270 AIFMs and UCITs managers are required to consider risks to sustainability in different aspects of their activities such as in the selection process, conducting due diligence and ongoing monitoring of investments. Under the SFDR, these undertakings are required to publish, inter alia, a statement on their due diligence policies with respect to principal adverse impacts of their investment decisions on sustainability factors on a comply or explain basis. At the same time, for companies with more than 500 employees the publication of such a statement is mandatory.
Are there any tax or other benefits available in your jurisdiction to encourage financial institutions and/or pension institutions to integrate ESG factors into their investment decisions?	Bulgarian law does not provide for any tax or other benefits to encourage financial or pension institutions to integrate ESG factors into their investment decisions.
Have the regulators (including financial market supervisory authorities) in your jurisdiction adopted special measures against "greenwashing"? What are the consequences of non-compliance with such measures?	The SFDR contains a general obligation for the financial market participants and financial advisers to ensure that their marketing messages do not contradict the information disclosed pursuant to the regulation. No specific measures or sanctions for non-compliance has yet been introduced in Bulgarian law. Although there is currently no case law of on misleading ESG claims in the financial sector, it is likely that the ESG characteristics of a financial product or service shall be considered to be among their main characteristics. On that basis, greenwashing perceived as deception regarding sustainable properties of products and services can be viewed as misleading advertising which is sanctioned under the Bulgarian Consumer Protection Act (CPA). In the absence of specific provisions sanctioning greenwashing the financial markets supervisory authorities such as the Financial Supervision Commission would rely on more general conduct of business regulations of investment advisors, AIFMs, UCITS management companies, portfolio managers, pension fund managers, etc., preventing deception of customers, clients, and investors on the properties of financial products and services. The same approach would apply to disclosure obligations of issuers in respect of information con-

	tained on prospectuses for public offerings of securities or other including ESG disclosure obligations, where breach of the relevant obligation may qualify as administrative offence. In addition, greenwashing may be prosecuted as a criminal offence if it qualifies as fraud.
Have there been any recent enforcement action or case law pertaining to “greenwashing” in the financial market in your jurisdiction?	We are not aware of any recent enforcement actions or case law in relation to “greenwashing”.
What legislative and regulatory developments are likely to emerge in connection with ESG obligations in your jurisdiction?	Corporate Sustainability Reporting Directive On 5 January 2023 Directive (EU) 2022/2464 (the Corporate Sustainability Reporting Directive or CSRD) entered into force, replacing the Non-financial Reporting Directive (NFRD). Member states have 18 months to implement the new rules into their national laws. Bulgaria has not yet transposed the new directive but is expected to do so in due course. The new directive strengthens the rules companies are required to follow in respect of reporting on ESG matters. The CSRD covers a wider range of large companies – approximately some 50 000 companies will be required to follow the reporting rules in comparison to some 12 000 covered by NFRD. Companies subject to the CSRD will have to report in accordance with the European Sustainability Reporting Standards (ESRS) which are to be adopted by a delegated act of the EU Commission by 30 June 2023. A main point of the CSRD is the introduction of the requirement to have sustainability information audited by an independent third-party and included in the company’s annual financial report. The CSRD will be mandatory for listed companies, large companies with more than 25 employees, net turnover of more than EUR 40 million or total assets exceeding EUR 20 million as well as non-EU companies with at least one subsidiary in the EU and a net turnover of EUR 150 million. The companies already subject to the NFDR will be required to start applying the new reporting rules in 2025 covering the 2024 fiscal year. All other companies will be required to start reporting in 2026, based on 2025 fiscal year data except for small and medium enterprises that request an extension in accordance with CSRD and will be required to start reporting in 2027 based on 2026 fiscal year. In comparison to NFRD, the CSRD introduces additional reporting requirements such as clarification of double materiality to identify “outside-in” (ESG impacts on business) and “inside-out” (business impacts on people and planet) and more detailed reporting aligned with the EU Taxonomy and European Sustainability Reporting Standards (ESRS). The specific requirements for disclosure of information would vary depending on the type of the reporting company and include factors such as environmental issues as GHG emissions, energy consumption, waste management, social issues as employment practices, diversity and governance issues as executive compensation, risk management etc. Corporate Sustainability Due Diligence Directive The EU Commission has proposed a Corporate Sustainability Due Diligence Directive (CSDDD) which puts forward legislative framework for substantive corporate duty for some companies to perform due diligence to identify, prevent, mitigate, and account for external harm resulting from adverse human rights and environmental impacts in the company’s own operations, its subsidiaries and in the value chain.

	The companies which will be covered by the new rules are determined according to various criteria, including the size of the company, number of employees, the turnover, and the main activity. Member states would be required to set out rules for these companies to integrate due diligence into all corporate policies and have an annually updated due diligence policy aiming to identify, prevent and end actual or potential adverse human rights and environmental impacts in their own operations, in their subsidiaries and at the level of their established direct or indirect business relationships in their value chain. The companies will need to ensure that there is a possibility to submit complaints in case there is a legitimate concern regarding actual or potential adverse human rights and environmental impacts as well as periodically assess the implementation of their due diligence measures. The proposal for the CSDDD has not been adopted as of the end of May 2023.
What legislative and regulatory developments are likely to emerge in connection with the consideration of ESG factors in sustainable finance in your jurisdiction?	The European Parliament and the Council have set forth a proposal for a Regulation on European green bonds. This proposed Regulation will set a gold standard for how companies and public authorities can use green bonds to raise funds on capital markets to finance large-scale investments, while meeting sustainability requirements and protecting investors. The Regulation adopts the European green bond standard (EUGBS). The EUGBS is a voluntary standard to help scale up and raise the environmental ambitions of the green bond market. The new regulation would aim to benefit both issuers and investors in green bonds. The former will have a way to demonstrate that they fund green projects, and the latter will be able to make more informed investment decisions. All while contributing to sustainability and economic growth.
What legislative and regulatory developments are likely to emerge in connection with the consideration of ESG factors in M&A in your jurisdiction?	The importance of the ESG factors in M&A transactions has grown recently and this tendency is expected to continue due to the associated reputational and legal risks if ESG factors are not addressed and the increasing pressure investors are facing to uphold higher standard across industries and regions. The legislative and regulatory developments in connection with ESG obligations and consideration of ESG factors in sustainable finance are likely to affect M&A transactions as well. The CSRD will cover a wider range of large companies, will introduce a requirement for auditing of sustainability information and will expand the ESG reporting regime which is likely to affect investment decisions. Furthermore, the Corporate Sustainability Due Diligence Directive (CSDDD) once adopted will impose certain duty to perform due diligence to identify, prevent, mitigate, and account for external harm resulting from adverse human rights and environmental impacts in the company's own operations, its subsidiaries and in the value chain, which is expected to affect the decision-making process and investment decisions.