Certificates of Deposit – The Uknown Instrument of The Money Market in Bulgaria

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Abstract: The questions about the nature and application of certificates of deposit in bulgarian practice have not been developed extensively and in its entirety. There are primarily theoretical publications in academic textbooks or articles. This fact is explicable as one of the most common, liquid, low-risk financial instruments in the world do not have a place in the national currency market for quarter of a century.

What are certificates of deposit, what kinds are they, how to calculate the yield on them and how are they traded on the money market are just some of the questions the current article would provide with an answer. More importantly for our practice, however, is to seek answers to the questions: "Does deposit certificates have a place on the Bulgarian money market?", "What are the advantages for depositors and banks with their implementation?", and "What proposals can be made in theoretical and practical aspect to facilitate the acceptance and accounting of deposit certificates as securities?". The author strives to give her interpretation and vision on these matters in the current material.

Key words: banks, deposit certificate, fixed money deposit, future value; nominal value of the deposit certificate; annual interest rate on the deposit certificate; contractual term of the deposit certificate

1. Introduction

Deposit certificates are one of the oldest and most well-developed money market instruments in America and Western Europe. Its essence boils down to the possibility of the depositors in term bank deposits to be able to sell their money to someone else before the date of payment, and thus preventing yield losses of interest; also in certain circumstances to make a profit from the difference in market interest rates.

At the time of the totalitarian regime in Bulgaria, term deposits were not known and popular. For the first time they have been introduced in the country a bit after the 90s and have since remain one of the most popular investments for natural persons but also one of the safest investments for legal entities. The lack of alternative due to the underdeveloped capital market and low investment culture of the Bulgarians continue to rank savings to be done in banks notably through term deposits.

During the financial crisis, the interest rates on term deposits reached levels above 10% per annum and banks gathered significant resources from these investments. In case of violation of the promised period on the deposits, the credit institutions imposed a drastically low interest rates. Investors were not happy with this situation, but they had no chance to enter the money market and sell their deposits, as did their counterparts in the western countries. This is because in Bulgaria the market of certificates of deposit has ot developed.

The purpose of this paper is twofold. On the one hand, the nature, types, profitability and ways of trading with certificates of deposit is summarised. On the other hand, by highlighting the advantages and disadvantages of some certificates of deposit, an analysis is offered regarding the possibility of their introduction into the Bulgarian practice as necessary short-term instruments useful both to depositors and the banks themselves. Before this, it is necessary to make a number of additions and clarifications concerning the nature and mode of trading in certificates of deposit, in their legal and economic aspects.

2. Emergence and Nature of Certificates of Deposit

Historically, the idea of the emergence of certificates of deposit (CDs) appeared in the 60s in America, and later was seen by banks in Western countries. The aim is to enable investors to profit from their own savings when buying and selling their term deposits on the money market. In the second half of the twentieth century, new opportunities for investment emerge and more customers of the banks started to withdraw their deposits especially to request and redirect the money out of the credit institution. It is known that banks are joint stock companies that work with a foreign attracted capital and for them it is essential to maintain and increase their bank resources and not to allow customers to withdraw them. In an effort to offer something new and profitable the first banks, which apply certificates of deposit, are Citibank and First National City bank of New York. Although the idea of these instruments dated back to 1961, wider application takes place in 70s-80s when they begin to be traded secondary on the stock exchange. Their development in Japan was very dynamic although the first trade was launched in 1979.

Economically, the certificate of deposit is a certificate having a short-term character of securities issued by a bank or other financial institution and certifying that it has been made a fixed money deposit. Certificate of deposit is paid at maturity as it accrues interest, and when the depositor cannot wait for the deadline, he can sell it to another on the money market.

Deposit certificates can be to bearer or personal. Most often they are issued to bearer, as they are more convenient for trading in the secondary market. In Bulgaria, in 1992 in the adopted then Ordinance № 3 for payments it was stated that to the Bulgarian investors, upon request, may be granted a certificate of deposit, but only the bearer certificates are considered to be a security ones. They are usually short-term - up to 1 year as the most widely used are those from 90 to 270 days.

Interest rates on certificates of deposit shall be determined at the opening of the term deposit and are negotiated between the client and the bank. This rate depends on many factors, as the most important are: the state of the money market, demand and supply of fixed deposits, interest rates and yields on competing banks, financial condition and rating of the credit institution, the characteristics of the specific issue of deposit certificates etc. It is important to note that **once determined, the interest rate on these securities is valid for the entire period of time, i.e. until maturity**. Naturally, for prime clients the banks will provide interest rates higher than the average specific emission. The big, financially sound institutions issue deposit certificates with lower interest rates, i.e. the income from this investment is not as high as it can get when purchasing certificates from a small, unknown banks.

Certificates of deposit are highly liquid. They can be sold at any time on the money market and to take the profitability now or more precisely, to be collected amounts, which according to the factors influencing the market can not only be equal to the promised interest rate of the bank, but even larger.[1]

Clearly, the certificate of deposit is a financial instrument derived from the term deposit, which has many advantages. The most important advantages of the certificates of deposit are:

- ability to be traded at any time on the money market thereby not to lose interest, as this may occur when there's a violation of the maturity deposit;
- high liquidity for the investor and the issuer;
- designed for institutional clients who buy them wholesale in large quantities;
- the purpose of having them is investment and the interest rate on them can be negotiated;
- secondary trading in countries, distinguishing between commercial and investment banking, as well as in Japan, is performed by specialized institutions - brokerage firms, discount houses and others.

Unfortunately, this market is not yet widely used in Bulgaria while in developed countries about 30% of all money market operations are carried out precisely with deposit certificates. The importance of certificates of deposit in the cash turnover of developed countries attests to the fact that the U.S. and the UK are part of M3.

3. Characteristics of The Deposit Certificates

The deposit certificate is a certificate having the character of a short-term security issued by a bank or other financial institution and certifying that it is made a fixed deposit of money. The deposit certificate is paid at maturity as it accrues interest, and when the depositor cannot wait for

[1] Robert W. Important Information about Certificates of Deposit, Baird & Co. Incorporated. Member NYSE & SIPC, 2009

the deadline, he can sell it to another money market.

Deposit certificates may be to bearer or nominal. Most often are issued to bearer, as they are more convenient for trading in the secondary market. In Bulgaria, in 1992 in the adopted then Ordinance № 3 of the payments was recorded that the Bulgarian investors upon request to issue a certificate of deposit, but only the bearer certificates are considered to be a security. They are usually short-term - up to 1 year as the most widely used are those from 90 to 270 days.

The interest rates on the deposit certificates shall be determined at the opening of the fixed deposit and are negotiated between the client and the bank. This rate depends on many factors, as the most important are: the state of the money market, demand and supply of fixed deposits, interest rates and profitability of competing banks, financial condition and rating of the credit institution, the characteristics of the specific issue of certificates of deposit and etc. It is important to note that **once determined, the interest rate on these securities is valid for the entire period of time, i.e. until maturity.** Naturally, for prime banks will provide clients interest rates higher than the average defined for the emission. In this case is also true that big, financially stable institutions issue certificates of deposit with lower interest rates, i.e. the income from this investment is not as high as it can get when purchasing certificates from a smaller, unknown banks.

Deposit certificates are **highly liquid**. They can be sold at any time on the money market and be taken into account currently to the profitability or accurately collected amounts, which according to the factors influencing the market can not only be equal to the promised interest rate of the bank, but even larger.

Clearly, the certificate of deposit is a financial instrument derived from the fixed deposit, which has many advantages. Unfortunately, this market is not yet widely used in the country, while in developed countries about 30% of all money market operations are carried out precisely in deposit certificates.[2] The importance of the deposit certificates in the monetary turnover of developed countries is attested by the fact that the U.S. and the UK are part of M3.

4. Types of Deposit Certificates

Deposit certificates in the world can be grouped by various criteria. Their diversity also depends on the specifics of the money market in those markets.

The most important types deposit certificates are classified as follows:

I. Depending on the period for which are issued they are:
   - **Short-term**, typically 3,4 and 6 month are the most widely used;
   - **Medium term** - 3 years. In some countries they are called savings deposits and with them only emissions are created, intended for individuals.

II. Depending on the legal form of the investors there are:
   - **Certificates of deposit for individuals**
   - **Certificates of deposit for legal entities** - companies, pension and investment funds, and others.

III. Depending on the registration holder they are:
   - **Certificates of deposit to bearer**
   - **Registered or personal deposit certificates**

IV. Depending on the degree of risk and the financial condition of the issuer, in they vary:
   - **First-rate deposit certificates:** They are issued by institutions with high ratings, which are in good financial condition. The interest rate on them however is not high.
   - **Second-rate deposit certificates:** they are issued from newly formed institutions with little capital whose purpose is to promote the market and attract more customers. So they give higher rates.

[2] http://www.banking.us.hsbc.com/personal/deposits/OnlineCD_T&Cs.pdf

V. Depending on the interest rate on certificates of deposit there are:

- **Certificates of deposit with fixed interest rate:** In these instruments agreed rate remains unchanged until the end of the maturity
- **Certificates of deposit with a variable interest rate:** In these certificates, the interest rate on them is reviewed by the bank over a period of time or is calculated based on a floating basis such. LIBOR, BIR, etc.

VI. Depending on the amount of the emission

- **Single deposit certificates**
- **Serial deposit certificates**

VII. According to the currency in which it is issued:

- **Certificates of deposit in local currency**
- **Certificates of deposit in foreign currency**

Often are issued in the currencies of major market-oriented countries. Certificates for which the deposit currency is not local are issued anywhere in the world - Singapore, Hong Kong, USA, Japan. Most of these deposits are in dollars at banks in Europe, hence the name - Eurodollar.

5. Trade with Deposit Certificates

Deposit certificates are preferred as investment from both individual and institutional investors. One of the main advantages of these tools is the high liquidity, low risk and profitability, which in many cases is higher than the interest on fixed deposits. The opportunity at any time to be traded on the money market, as there the price of purchase is determined and therefore the return on them is an attractive attribute, acting from the moment of their occurrence.

Investors in fixed deposits often suffer from a breach of promise of time. For various reasons, depositors cannot wait for maturity and withdraw from the funds that have been left to fixed deposit. This leads to a distortion of maturity and a deficit in an insignificant interest rate, which sometimes, on an annual basis, is a hundred times lower than the annual interest rate promised. To be able to sell to another your own deposit without losing the profitability is a concept transformed in the deposit certificates that appeals to all depositors. So to this day, these financial instruments are much preferred on the money market.

The sale and purchase of a deposit certificate before maturity and calculation of return on it can be illustrated by the following example:[3]

EXAMPLE

Commercial Bank "ABC" issues a deposit certificate to bearer to person "X", stating that the same person is put on fixed deposit for half a year the sum of 200 000lv. The annual interest rate on the deposit certificate was agreed at 15%. At the end of the fourth month, person "X" needs cash and decides to sell the certificate to someone else on the money market. At that time, the commercial bank offers fixed deposits at 10% annual interest rate. A buyer of the deposit certificate is person "Y", who prefers to buy from "X" the certificate instead of making a separate fixed deposit in the bank for two months. What is the maximum price at which "Y" may agree to buy a certificate of deposit from "X" and what kind of returns for the period to will the vendor "X" and the buyer "Y” have?

It is necessary first to calculate what value would receive the depositor if he waits for maturity. This value would have received any other certificate holder who offered it at the end of the period to encash in the commercial bank. The bank does not care how many times within the period the certificate will be bought and sold, and is interested in how this maturity will pay the one who presents it. The value will be obtained after 6 months that is why we look for the future value of money or FV - Future value.

$$FV = N.(1 + \frac{R.T}{100.360})$$

[3] See. Default. Assen, M. Financial Markets, Veliko Tarnovo, Faber, 2011, s.76; Videv S. For the money, interest and valuable knizha.S., 1992; Zvi Bodi, Alewx Kane, Alan J. Marcus Essentials of Investments. Fourth edition, McGraw-Hill, 2001

Where:

FV is the future value;

N - nominal value of the deposit certificate;

R - annual interest rate on the deposit certificate;

T - contractual term of the deposit certificate;

Therefore,

$$FV = 200000.(1+\frac{15.180}{100.360}) = 200000.1{,}075 = 215000 \text{ lv.}$$

This shows that anyone who brings the certificate to the bank at the end of the 6th month will receive 215 000 lv.

In this case, the holder of the deposit certificate "X" cannot wait for maturity so he wants to sell on the money market. There is the buyer "Y", who generally has two options to proceed with the investment of his money. The first option is to go to commercial banks and to independently make a fixed deposit for two months on the market annual interest rate of the bank at this point, which is 10%. The second option is to get on the money market and there to buy from "X" the certificate of deposit, which term till maturity, is also two months. If the buyer "Y" chooses the second option, he should pursue such purchase price of the certificate, which would provide him an annual return not less than 10% for two months. Otherwise, it is more profitable to choose the first option - a bank deposit.

Buyer "Y" prefers to hit the money market and to buy a certificate of deposit from "X". For this, he must calculate what is the present value of the certificate, provided that the return, which he realizes for four months, is at least 10%. That is also what the maximum amount "Y" shall pay to "X" so as to achieve at least a return of 10%. Naturally, on the money market, "Y" may seek such purchase price of the certificate, which guarantees him an annual return higher than 10%.

$$PV = \frac{FV}{(1+\frac{r.t}{100.360})}$$

where:

PV is the present value of future cash flow from a deposit certificate;

FV - future value of the deposit certificate;

r - the current annual interest rate;

t - number of remaining days from the sale to maturity (residual maturity).

Substituting in the formula, we get:

$$PV = \frac{215000}{(1+\frac{10.60}{100.360})} = \frac{215000}{1{,}0166} = 211489{,}27 \text{ lv.}$$

The amount of 201 688, 55lv. shows that this is the maximum value "Y" is to pay "X" to realize two months an annual return from 10%.

It is possible that on the money market "Y" to say to "X" that the bank gives him an annual interest rate on fixed deposit equal to 10% and therefore if he buys a certificate of deposit from "X", he wants to realize a higher return. In this case "Y" should seek a price lower than 201 688.55 lv.

Let's look at the next step, namely, what is the financial impact or the profitability for vendor "X" and the buyer "Y" of the deposit certificate?

Annual return for the first holder "X"

The formula for calculation of the profitability of the first holder of the certificate "X" is the following:

$$d_x = \frac{(PV-N).100.360}{N.(T-t)}$$

where:

d_x is return of the first holder of the deposit certificate "X" for the holding period

$(T-t)$ - holding period of the first holder "X"

$$d_x = \frac{(211489{,}27-200000).100.360}{200000.(180-60)} = 17{,}23\%$$

This result indicates that the first holder "X" for the four months of holding realizes annual return much higher than that of the deposit certificate. Bank promises 15%, and he realizes 17.23%. In these calculations, the second holder "Y" has the opportunity to ask to buy the certificate of less than 211,489, 27lv. so as to realize a higher return of 10%.

Annual return for the second holder "Y"

The absolute income, which "Y" will receive for the two months of holding the certificate, given that “X” bought it at a price of 211 489.27lv, is calculated by future value subtracting form the present value of the certificate.

Absolute income = FV-PV

Absolute income = 215000 - 211 489.27 = 3 510.73 lv

Relative annual return for the period of holding of the second holder "Y" is called d_y and is calculated using the formula:

$$d_y = \frac{(FV - PV).100.360}{PV.t}$$

Substituting in the formula, we get:

$$d_y = \frac{(215000 - 211489,27).100.360}{211489,27.60} = 9,96\%$$

i.e. approximately 10%

This result shows that when purchasing a deposit certificate at a price of 211 489.27lv, the second holder "Y" will realize a return of approximately 10%.

6. For and Against The Administration of Certificates of Deposit in The Bulgarian Banking Practice

The banks in Bulgaria decide by themselves whether or not to work with a given instrument. It all depends on the wishes of the customers, the market conditions and the financial benefit of the credit institution.

Twenty-five years after the introduction of the term deposits in Bulgaria, commercial banks still do not offer trading with certificates of deposit on the money market. This means that either there is no interest by depositors or the credit institution itself sees no sense in their development and commercialisation.

The large credit institutions on banking market in Bulgaria are foreign vaults. Out of the first five largest banks in the country only one of them has Bulgarian capital, the other four are Italian, Hungarian, Greek, and Austrian property. In their own countries, the parent banks what a deposit certificate is and trading with it occupies a significant place on the money market. Какво пречи след добрата воля в началото на 90-те години и желанието да се търгува с депозитни сертификати тези инструменти да остават все още непознати за нашия паричен пазар? Many of the new instruments that are offered to individuals and legal entities in Bulgaria are transferred from foreign banks and have found good reception here. What prevents these instruments to still remain unknown to our money market after the goodwill at the beginning of the 90s and the desire for them to be traded?

The reasons may be sought in the theory which from the outset did not properly explain the nature of the fixed or not fixed term investments, as well as in the legislation, which for years could not accurately determine the nature and the difference between term deposits and certificates of deposit. But mostly the rejection of certificates of deposit in practice lies in the fear and lack confidence of investors to trade in funds, and hence the reluctance of banks to develop a methodology for trading with certificates of deposit. Contributories for this situation were also - hyperinflation in the country, the bankruptcy of dozens of commercial banks in the 90s, the introduction of the currency board and the unsuccessful attempts at its artificial eliminating the financial crisis and maintaining a five-year period of high interest rates on deposits, respectively. bank deposits, low investment culture of Bulgarians and last but not least our mentality. Why we believe that the introduction of trading in certificates of deposit is beneficial for investors as well as for banks?

From the standpoint of investors - this is an opportunity, an alternative for investment and at the same time, a way to prevent risks. Many depositors in term deposits with a longer period have violated the maturity and have lost from the non-payment of the promised interest. The currency market offers not only prevention of losses, but also an opportunity to profit from trading with depositors' own money. Today, interest rates on deposits are very low, there are even cases of negative interest rates. This is definitely not an incentive for holding money on bank deposit. After the bankruptcy of the fourth largest bank in Bulgaria CCB, depositors in term deposits earnestly thought about new investment opportunities. Part of them focused their interest in real estate, gold, currency, securitiesand; the more conservative and the ones without deep knowledge of trading in financial instruments left their money at home. Investment preferences depend on many factors, but also on the ability to take risks. Ignorance of securities and stock exchange trade, the lack of a large selection of quality shares of companies, relatively few joint stock companies that offer free shares for sale, the lack of investment advisers, the decline in stock prices, etc. lead to the fact that despite low interest rates, the majority of investors continue to keep their investments in banks. Another reason is the guarantee of investments in banks. In uncertain times, the depositor seeks state guarantee. Like nature, the economy is cyclical. After the crisis and the recession in the European countires, the prognosis suggest that there is a GDP growth and a great revival of production is expected. Interest rates on deposits remain at low levels, but over time they are expected to go up. The deposit certificate will give new opportunities to depositors which are easy to implement and without risk.

From the perspective of the banks introducing certificates of deposit can have both positive and negative aspects. A positive aspect is that the money invested in the certificate of deposit remain in the credit institution to maturity despite the change of its owner. Thus banks preserve their resources, increase liability and have the opportunity for long-term target of the attracted capital. Also, these tools very well would be used as collateral for loans or other assets. Banks can incorporate them into the portfolio of individual clients and offer various options of risk-free investments. It definitely can bring higher returns to customers and legal tax avoidance of term deposits, which currently exists in Bulgaria. Negative or rather hampering deployment of certificates of deposit we can see in a more complicated procedure of trade, solving the issue of ensuring the investment fund, and the ability to hide the real owner of the money when trading with deposit certificate to bearer. In this aspect it is necessary to study the experience of western countries and to propose a way to track and prevent the attempts of money laundering and financial fraud.

7. Some Suggestions for The Introduction and Trade with Certificates of Deposit on The Bulgarian Money Market

The introduction of deposit certificates as an instrument of the money market and their trading by commercial banks in Bulgaria is clearly not a matter of consistent interpretation and judgment. Therefore, we see that it is necessary to do quite some steps both in theoretical and in practical aspect.

The most important ones can be summarised in the following points:

1. In theoretical aspect, it is necessary to give a clearer distinction between the terms "bank deposit" and "deposit".[4] University professors have long highlighted the substantial differences both in financial and accounting matters in these concepts, but practitioners continue to use the terms bank deposit only for the money placed in a bank without promise of withdrawal after a certain date, ie demand deposit. Those that are made with the express written consent for withdrawal after a certain time are called deposits. In fact, the money left in the bank, whether for fixed or indefinite period, are monetary deposits and banks pay interest on them because the depositors appear as lenders to the banks. The money which were left on deposit, when withdrawn, are not the same neither in quantity nor in denominations. The deposits are a major element of the liability of the bank balance and interest on them are part of banking assets. Deposits mean not only investments left in storage, but also values and other assets that banks hold. In this respect clients seek the services of banks to store their valuables and pay for renting safes, ie these fees for deposit services are reflected in the balance sheet liabilities. It has already been pointed out that due to the literal translation from English, deposits are now referred to exclusively as fixed-term deposits. This is why often when entering a bank we see signs saying "deposits of companies" and "deposits of citizens." The distinction between "bank deposit" and "deposit" in economic terms must be followed by legal changes and consistency in the laws and regulations that use these concepts.

2. When these distinctions are made, it should be proceeded to differentiate between the terms "term deposit" and "certificate of deposit". There are still views, even among some economists, that the deposit certificate is a contract for a term deposit. This view is reinforced by two facts. Firstly, in Bulgaria there are two terms for a savings account and a deposit account. The first is used and comes with the demand savings deposit and the second account is designed precisely for the term investments called deposits. This somewhat legitimised the deposit as a name as synonymous with term deposit. This is why some authors accept that the contract for term deposit as actually a deposit certificate.

[4] Op.cit., p.72

Secondly, Russian-speaking countries also use the terms savings and certificates of deposit as synonymous with savings and term deposits.

3. It is necessary to define legislatively what a deposit certificate is and indicate that it is a security traded on the money market. At the moment what we notice with the changes in some of the laws dealing with trading on the financial markets (the Markets in Financial Instruments) and services carried out by banks (Credit Institutions Act) is more or less a refusal or avoidance of entry into details regarding trading with money market instruments, incl. certificates of deposit. What is meant by this?

- Since 1992, according to the then current Ordinance № 3 of BNB on the payments and banking unified standard 1092 M, a certificate of deposit is defined and admitted in the Bulgarian legal peace as well as in the banking practice. It explicitly states that the bank is obliged to issue a certificate of deposit to every Bulgarian citizen on demand, but only a deposit certificate to the bearer is considered a security and can be traded in the money market. On this basis, in 1994 First Investment Bank started issuing certificates of deposit against deposited cash in Bulgarian lev for a period of one year at an interest rate 8 percentage points above the base rate of the Bank. Then the deposit certificate was officially regulated as a document in which the bank is obliged to repay at maturity the deposited amount on it and interest for the period. Besides having all the features of a usual deposit, through it, it can be performed and other financial operations like transferring it to third parties or making it available as collateral against debt. It is obvious that when the term deposits became popular, our legislature has given an opportunity to use deposit certificates by stimulating their introduction;
- After this first attempt to implement the certificate of deposit in the banking practice in leading law, dealing with this instrumen, changes occurred. For example, in the Credit Institutions Act (amended in 2009) enables towards the banking activities to be attributed also "trading for own account or for the account of customers in money market instruments - checks, bills, certificates of deposit, etc." (Art. 2, para 2, item 8 a). It is clear that the banks allowed trading in certificates of deposit by explicitly mentioning that they are money market instruments. Later, however, with amendments from 2014 in the same law, article, and paragraph, we no longer find the same text, but we see that it has been replaced by "dealing on own account or on behalf of clients with foreign currency and precious metals except for derivative financial instruments on foreign exchange and precious metals." Not only was the ability to trade in certificates of deposit removed, but those changes affect operations with other money market instruments as well. Here the question arises: Why make this change given that commercial banks are major participants in the money market in all countries"? Searching for an answer, we see that trading of financial instruments is not denied, but rather represented in very general manner in order not to oblige the credit institution with similar activities if it does not want to carry them out. We come to this conclusion after pay attention to article 2, paragraph 2, item 9 of the Credit Institutions Act, which stipulates that "the bank can provide services and / or activities referred to in Art. 5 para. 2 and 3 of the Markets in Financial Instruments". These are exclusively investment activities related to the provision of services on its own and for hire of primary and secondary capital markets, as well as giving advice and management of investment portfolios of financial instruments. In other words, towards financial instruments are related primarily equity, debt securities and derivatives that are traded on stock exchanges. Where are the money market instruments left? They are not forgotten but are too well veiled in the text so that the first reading cannot reveal them. This is because the interpretation of art. 3 of the Markets in Financial Instruments Act concludes that financial instruments are a broader concept of securities as financial

instruments include securities and instruments other than securities. In recent i.e. in Article 3, Item 2 a) it is written that "towards instruments other than securities are falling money market instruments." That is how the legislature obliquely assumes that banks can carry out activities in the money market and to trade with financial instruments. But do they mention what are these instruments? Yes, but it's done in the additional provisions of the Markets in Financial Instruments Act, where &1, item 13 reads: "Money Market Instruments" are instruments normally traded on the money market, short-term government securities (treasury bills), certificates of deposit and commercial paper, with the exception of payment instruments".

Here's how after a long walk in the main law governing the activities of commercial banks and proprietary trading we come to the conclusion that the legislature does not prohibit the trade in certificates of deposit, but they are not displayed prominently, and are quite hidden to the average reader. Also we found that in recent years, changes in the laws are made precisely for the purpose to all instruments traded in the money market to be removed as designations of the main text in the law. It remains to guess whether it is done because it is clear that in the Bulgarian banking market the trade in short-term financial instruments is still an unknown phenomenon or because it is unviable and obsolete for the contemporary e-commerce way of investing. We think this is unlikely due to the second reason given that fixed-term deposits definitely go along with certificates of deposit, and no country had abandoned these investments. Rather the first reason remains - an undeveloped service in the money market.

4. Although the deposit certificates are not developed on our market, they exist in the banking balance. *From an accounting perspective they are reflected as debt certificates*. Given the essential proximity of the deposits to certificates of deposit, we come close to the opinion of Prof.. Pavlina Dimitrova that "certificates of deposit should be classified as deposits (exclusively term deposits) rather than debt certificates".[5]

5. An important issue is to ensure investments in certificates of deposit. It is noteworthy that nowhere in the Law on Deposit Insurance banks there is a mention of deposits. Is characterises only term deposit in their varieties. Without going into details, we note that the fund guarantees full payment up to 196,000 Levs of "a saving product, certified with the deposit certificate issued to a named person and existing on and after July 2, 2014".[6] This text is further evidence that banks so not exclude trading in certificates of deposit, but because of an undeveloped methodology to work with them, they remain a rather wishful thinking.

8. Conclusion

Introducing deposit certificates as an instrument of money market and trading by commercial banks in Bulgaria is clearly not a matter of consistent interpretation and judgment. We believe that the introduction of trading in certificates of deposit is useful for investors and banks. From the perspective of investors this is an opportunity for alternative investment and at the same time a way to prevent risks. From the perspective of the banks introducing certificates of deposit can have both positive and negative sides. A positive point is that the money invested in certificate of deposit remain in the credit institution to maturity despite the change of its owner. Thus banks preserve their resources, increase liability and have the opportunity for long-term target of borrowed capital. Also, these instruments would be used very well as collateral for loans or other assets. Banks can incorporate them into the portfolio of individual clients and offer various options of risk-free investments. This definitely can bring higher returns to customers and legal tax avoidance in time deposits, which currently exists in the country. Negative or rather hampering deployment of deposit certificates sides we see a complicated procedure of trade, solving the issue of ensuring the investment fund,

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[5] Dimitrova, P. Credit market in Bulgaria in the context of a comparative analysis with other countries (financial and accounting aspects) magazine. Management and Sustainable Development, 2010.

[6] Law on Deposit Insurance banks Additional provisions & 1, item 1 a).

and the ability to hide the real owner of the money to trade in the deposit certificate to bearer. In this aspect it is necessary to study the experience of western countries and to propose a way to track and prevent the attempts of money laundering and financial fraud.

The article proposes a number of theoretical and practical steps to legal and economic justification regarding the essence of deposit certificates, their accounting and trading in the money market.

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Regulations

Law on Credit Institutions

Law on Markets in Financial Instruments

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