2016 ANNUAL REPORT

ROMÂNIA
AUTORITATEA DE SUPRAVEGHERE FINANCIARĂ

FINANCIAL SUPERVISORY AUTHORITY

Note

This annual report presents the events of 2016 calendar year and reflects data as of 31st of December 2016.
Some statistical data included are provision, as they are to be reviewed in future publications issued by the Financial Supervisory Authority. Due to the rounding up exercise, it is possible for some totals not to match exactly the sum of all components or some small differences might appear compared to the percentage-based variations displayed in graphs or tables.
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AUTORITATEA DE SUPRAVEGHERE FINANCIARĂ

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FSA BOARD`s Foreword

Based on the mission entrusted by the Romanian Parliament, in 2016, the Financial Supervisory Authority continued its efforts aimed at modernising and strengthening non-banking financial markets, as well as furthering their alignment to the European framework. Through its commitments, FSA paid special attention to protecting the interests of all participants in the supervised markets.

Last year marked a new stage in the development of these markets. A process which, despite turmoil, hallmarked a series of extremely important and needed interventions for the stability of the Romanian non-banking financial system, as a whole.
The entire legal framework of the three sectors went through a process of careful re-design, due to the review of primary and secondary legislation, with the purpose of enhancing clarity and transparency and thus facilitating access to markets for potential new participants. FSA also continued the process of alignment to EU legislation, by transposing several European Directives. Notably, in 2016 a new transparency standard was introduced in the insurance sector, by the implementation of the Solvency II Directive.
Special attention was paid to implementing risk-based supervision, underlain by modern principles, which bring prevention and an effective use of resources to the forefront.
For the second consecutive year, market diagnosis exercises were carried out, by initiating a stress test on open and closed end funds, and also by participating in the EIOPA European stress test of life insurers.

> *Protection of consumers' interests remained one of the main priorities for the FSA policy*

FSA continued to participate actively in the work of European financial supervisory authorities, as a member. The Authority experts' participation was aimed at supporting the objectives of these authorities in terms of harmonization of national financial policies and convergence of supervisory financial mechanisms in the European Union.
Throughout 2016, the protection of consumers' interests remained a priority line of action on the Authority's agenda. A new structure for alternative dispute resolutions of non-banking financial sector was established - SAL-Fin; a new call centre was added to the tools used for handling consumers complaints; and financial education programs extended nation-wide and gained international recognition.
In 2017, FSA will continue its strategic actions aimed at achieving non-banking financial stability and predictability and at maintaining the pre-requisites for their further development.

ASF board members

MIȘU NEGRIȚOIU
President

CORNEL COCA CONSTANTINESCU
First Vice President

MIRCEA URSACHE
Vice President

ION GIURESCU
Vice President

MARIUS VORNICEANU
Vice President

GHEORGHE MARCU
Board Member

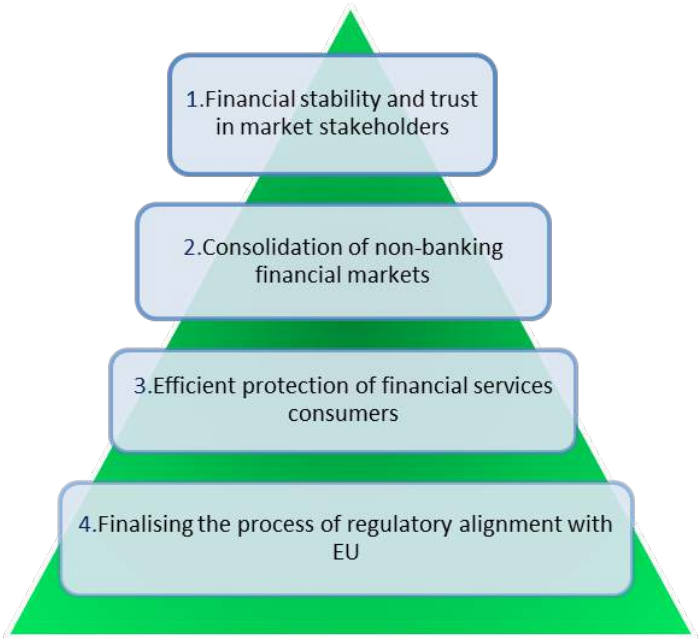
BIRÓ ALBIN
Board Member

DANIEL ARMEANU
Board Member

GABRIELA BOCA
Board Member

MAIN ACHIEVEMENTS IN 2016

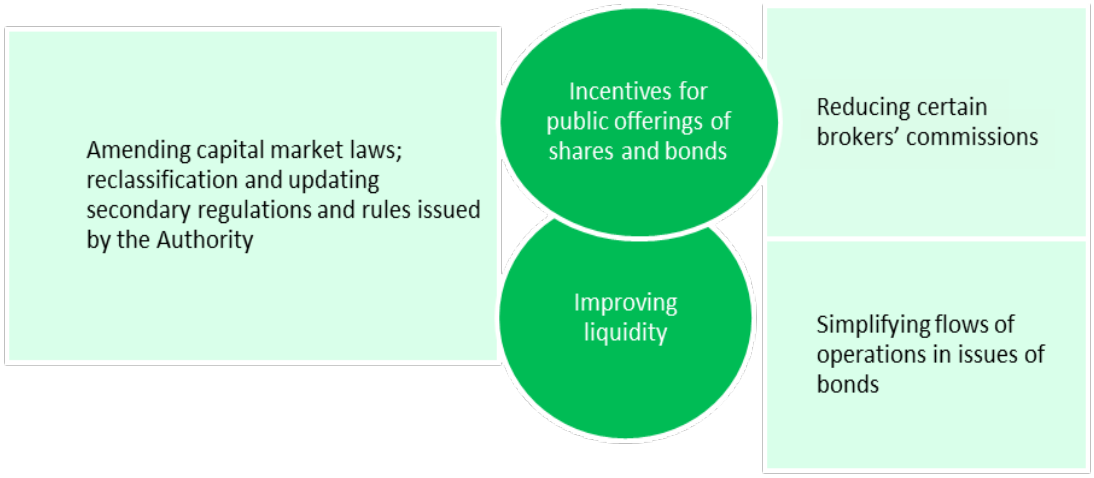
What we did in 2016



Modernisation of capital market	•Actions in the STEAM project •Stress test on the capital market
Sustainable growth of insurance market	•Implementation of Solvability II •Measures on the MTPL market •Participation in the EIOPA stress test
Efficiency in private pensions system	•Optimising control and supervision activity •Updating secondary regulatory framework •Testing conduct in relation with consumers

Modernisation of the Capital Market

The development of the local capital market was sustained by the modernisation of the legal framework, with the main goal of including the Romanian capital market on the MSCI list of emerging markets.
FSA continued the modernisation of the regulatory framework, such as to encourage the development of the local capital market and increase its attractiveness for investors, thus supporting the upgrade of the Romanian capital market from the frontier to emerging market status. In continuation of the efforts to qualify Romania as an emerging capital market, FSA implemented a package of measures, including:



ACTIONS UNDER THE STEAM PROJECT

The STEAM Project – initiated in 2014 – was built on a number of objectives aimed at correcting the frontier-specific shortcomings that are still present on the Romanian capital markets. In 2016, the main activities developed for achieving the STEAM objectives were gathered on 5 large pillars:

Pillar I

- Development of the draft law on issuers and market operations, as well as the draft law amending the Emergency Ordinance no. 32/2012 on UCITS and IMC and amending Law no. 297/2004 on the capital market. All these laws are currently subject to inter-ministerial approval.
- Development of a draft law on the financial instruments markets and a draft law on alternative investment funds, currently being finalised by the sub-working groups established by FSA with the participation of market stakeholders.
- Review of the orders issued by CNVM/FSA, for the purpose of taking over/adapting/repealing their provisions, with a view to simplifying the secondary legislation of the capital market.

Pillar II

- Assessment of the RoClear System of the Central Depository based on the ESCB-CESR Recommendations, in the context of adhering to the T2Securities platform;
- Development of a draft regulation aimed at improving the register activity of the Central Depository.
- Identification of the capital market entities interested in setting up a Central Counterparty (CCP) and bringing them together in a workgroup;

Pillar III

Provision of technical assistance to the entities involved in the implementation of the pilot programme (market operators, issuers, Central Depository, brokers) on the issuance of bonds addressed to retail investors and popularising this type of financing among companies and other stakeholders;

Pillar IV

Extending the possibilities of Romanian issuers to be listed on external markets;

Improving efficiency and flow of short selling, by developing a regulation amending CNVM Regulation no.32/2006 and CNVM Regulation no.5/2010;

Pillar V

Creating the conditions for the operation of new types of undertakings for collective investment, through the draft law on alternative investment funds and the draft regulation issued for the implementation of the AIFM Law and the AIF Law;

Review of the implementation status of corporate governance principles by the issuers;

Development of IFRS standards applicable to authorised entities.

CAPITAL MARKET STRESS TEST

FSA carried out a stress test that included 73 open end investment funds (UCITS) and 29 closed end investment funds (non-UCITS) authorised in Romania. The purpose of the exercise was to identify new procedures for the improvement of the funds capacity to manage liquidity and investment risks. The stress test looked into the impact of a number of stress factors related to market risks (drop of stock prices, increase of interest rates, and fluctuation of currency exchange rates), counterparty and liquidity risks.

Sustainable Growth of the Insurance Market

Though frictions existed in the MTPL sector, the financial indicators of the insurance undertakingss showed that the market growth in 2016 was sustainable and the operations were consolidated, with a total of gross written premiums of Lei 5 billion, in the first six months of 2016. In the first half of 2016, both non-life and life insurance segments advanced by some 11% and 10%, respectively, compared to the same interval of 2015.

IMPLEMENTATION OF SOLVENCY II REGIME

The Solvency II Directive was implemented in Romania as from the 1st of January 2016. It represents a sound supervision regime that is applied throughout the European Union and that led to a paradigm change in the risk culture of companies. Thus, well-capitalised insurance undertakings will be able to resist unforeseen shocks. Solvency II leads to

increased supervision convergence at European level, and, by encouraging good governance and risk management, the new supervision approach entails improved protection of consumers.

MEASURES FOR MTPL MARKET

Independent actuarial analysis of MTPL premiums

FSA designated Milliman Consultants to carry out an actuarial analysis of the premiums charged by the nine insurance undertakings authorised to issue MTPL policies. The exercise was part of the package of actions implemented by FSA with the aim of rebalancing the MTPL market and discouraging excessive increases of the premiums. The purpose of the independent analysis was to identify market benchmarks on the average claim and average frequency of claim and to correlate these with the premium, based on comparable data of the nine companies, as well as to assess the adequacy of the premiums in relation with the claims.

Draft MTPL law

Based on complex consultation process with the professional and employers' associations of insurance undertakings and road transporters (including representatives of a number of agencies), FSA developed a draft law that would regulate the Romanian MTPL market. The legal provisions are in line with the relevant European directives and incorporate practices that have been validated by the experience of several EU Member States. The FSA's proposal was submitted to the committees on budget-finances of the Senate and Chamber of Deputies, as well as to the Ministry of Public Finances – the entity that has the right to initiate laws in the areas regulated and overseen by FSA.

Special monitoring of MTPL premiums for compulsory insurance segments for transport vehicles

FSA monitored the evolution of MTPL for transporters, in order to identify real increases and provide relevant market information to the insured. As from January 2016, the MTPL premiums for utility/freight and passenger vehicles were monitored and statistically analysed systematically, on a monthly basis. The consolidated figures for the entire market were communicated in press releases. The statistics are available on FSA's website – www.asfromania.ro.

Updating secondary regulations

Rule no. 23/2014 was amended such as to produce immediate effects on the stabilisation of MTPL premiums, increase market liberalisation and maintain the premiums at a constant level for a longer period. Clear rules were introduced on the requirement to ensure proportionality between MTPL claims and premiums, clarifications on the green card, relaxation of operating conditions aimed at attracting new investors or MTPL insurance providers, increasing competition between sales channels and improving efficiency of distribution channels, possibility to give trade discounts, and modification of premiums notified to FSA only after 12 months.

Determining the maximum premiums for MTPL insurance

Following the adoption of GEO no. 54/2016 imposing maximum MTPL premiums for a period of six months, FSA determined the premiums based on the method adopted by the FSA Council on October 5th following a public consultation process. The calculation is compliant with both the GEO and generally accepted actuarial practices in the insurance industry. The determination of the risk premium includes calculations of the frequency of claims, average claim, claims incurred but not reported (IBNR), claims inflation and safety charge, plus the fixed and variable purchase and administration expenses, as well as the Bonus/Malus (15%) charge and profit margin (1%). The maximum premiums determined by FSA according to the applicable regulations were then submitted to the Ministry of Public Finances where a Decision was initiated and approved by the Government.

Development of the Rule on motor insurances in Romania, implementing the Government Emergency Ordinance no. 54/2016

The FSA Council approved the draft rule on the civil liability insurance for car owners against damages caused to third parties in vehicle and tram accidents and other motor insurance provisions, after the completion of the public debate on this topic (Rule no. 39/2016 was published in the Official Gazette of Romania no. 986/8.12.2016).

Romania's participation in the EIOPA stress test

EIOPA initiated a Europe-wide stress test addressed to life insurance undertakings. FSA approved the participation of three companies: NN Asigurări de Viață, Grawe România Asigurare and Asirom VIG. The exercise was aimed at assessing the insurance undertakings' vulnerabilities and resilience to adverse market developments, based on a common analytical methodology. The conclusions of the stress test were good for the Romanian companies, above the European average.

Supervision measures

In its meeting of the 27th of July 2016, based on a set of reports that indicated the insolvency of this company, FSA decided to withdraw the operating license of Carpatica Asig SA and uphold the application of the bankruptcy procedures, on the grounds of Law no. 503/2004 and Law no. 85/2014.

FSA withdrew the operating license of Forte Asigurări Reasigurări Company and requested the bankruptcy procedure to be initiated

FSA approved the financial recovery plan for the City Insurance SA. - Insurance Reinsurance Company

Consumer protection monitoring measures

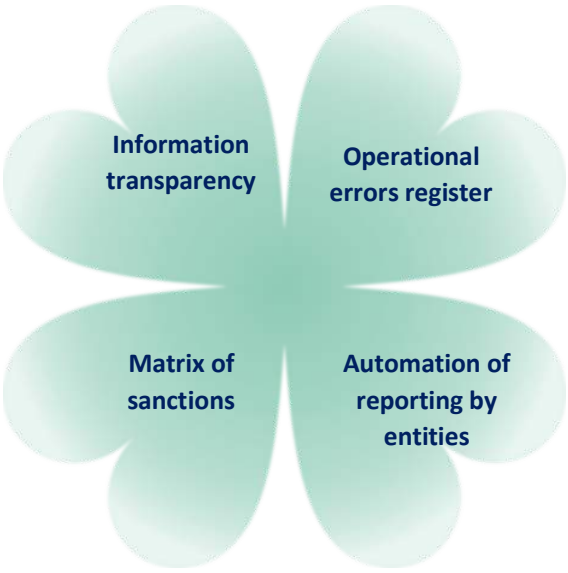
In 2016, FSA intensified consumer protection monitoring efforts through mystery shopping projects on the insurance market, testing the insurance undertakings' reaction from the consumer's perspective and, when slippages were identified, requesting the correction of conduct accordingly. The purpose of the exercises was to increase the quality of services provided, through higher transparency and improved approach to the customers' needs.

Furthermore, in 2016, FSA started an analysis of the contents of insurance contracts, in order to ensure they meet the real needs of the consumers and comply with the consumer legal rights.

Also, the first analysis of claims' payments was carried out, for the purpose of preventing improper practices and enforcing the relevant consumer legal rights .

Efficiency of Private Pensions System

The Romanian private pensions system continues to grow, with a total assets increase of almost 27% in the first six months of the year compared to the same interval of the previous year. With a view to ensuring the stability and predictability of the private pensions market, FSA initiated a number of projects meant to increase the efficiency of monitoring and supervision activities, in the context of the new European trends.



Regarding the regulatory framework of the private pensions sector, FSA reviewed and developed a number of proposals on the law on the organisation and operation of the private pensions system. The proposals were submitted to the Ministry of Justice.

Moreover, several draft rules were reviewed and improved, including:

- Draft rule on compensating the losses of participants and/or beneficiaries in/of private pension funds;
- Draft rule on increasing or decreasing the annual contributions payable to the Guarantee Fund for the private pensions system.

The secondary regulatory framework was completed and updated in compliance with Law no. 411/2004 on privately administered pension funds, reissued, as amended, and Law no. 204/2006 on voluntary pensions, as amended, by the development of the following acts:

- Draft rule amending and supplementing Rule no. 11/2011 on the investment and evaluation of private pension fund assets;
- Draft rule amending the accounting rule applicable to the private pensions system;
- Rule no. 9/2016 or the extension of the deadline set out in Art. 18 of Rule no. 13/2012 on the actuarial calculation of the technical provision for the privately managed pension funds;
- Rule no. 22/2016 on the authorisation to establish pension companies and authorisation to manage privately managed pension funds;
- Rule no. 23/2016 on the authorisation to establish pension companies and authorisation to manage voluntary pension funds;
- Rule no. 34/2016 on the biannual accounting reporting system for private pensions;
- Rule no. 36/2016 amending Rule no. 26/2014 regarding the transfer of participants between privately-managed pension funds.

Monitoring measures

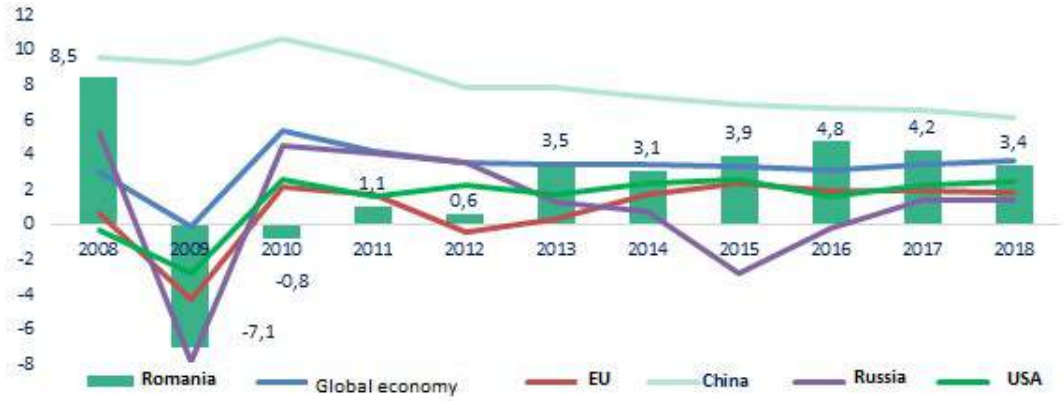
In the context of supervising the private pension system, in 2016, FSA carried out two mystery shopping exercises, one addressed to Pillar II fund managers and another addressed to Pillar III fund managers. This type of supervision exercise is aimed at testing the behaviour in the relation with the consumer and supplements the traditional supervisory measures, in order to increase the quality of the services, through increased transparency and improved approach to the needs of the beneficiaries.

Macroeconomic and Non-Banking Financial Developments

Macro-economic Overview

Recent macro-economic developments indicate a slow down in the world economy growth in 2016 (+3.1%), on the backdrop of heightened geo-political tensions, intensification of the refugee crisis and terrorist attacks in Europe that led to uncertainties on the financial markets. The protectionism of developed economies caused the reduced dynamics of world commerce to be maintained, with a negative impact on emerging economies. At the same time, these economies were impacted upon by the inflection in the price of raw materials, in particular oil prices (Russia, Brazil). In turn, the developed countries were confronted with the specific issues of modest economic growth (less than 2%), concomitantly with the historic lows of interest rates and inflation.

Economic growth (%) in the world and in Romania



Source: IMF - World Economic Outlook Database, April 2017

The monetary policies of the main central banks were focused on consolidating economic expansion. The US Federal Reserve raised the interest rate only at the end of the year (by 25 bps), whilst ECB concentrated on incentivising the Euro zone businesses, by continuing its asset purchasing programme.

The uncertainties on the financial markets amplified in the first quarter, when the markets reacted to concerns on the slow down of the Chinese economy and to subsequent worries caused by the instability of European policies. The macro-economic and financial environment stabilised in the second half of the year, and investors' confidence increased significantly. Thus, the minimum Brent oil price was reached on January 20th, at USD 27.9, whilst the maximum was USD 56.2, on December 28th. The price stabilised from June (with some variations) and the growing trend consolidated in December, after the OPEC and non-OPEC (Russia, Sudan etc.) agreement to limit output. As an immediate consequence, the EU consumer prices increased year on year by 1.2% in December, after an inflation of 0.6% in November. This is the highest level since September 2013, mainly due to the recovery of energy prices, up 2.6% (compared to -1.1% in November).

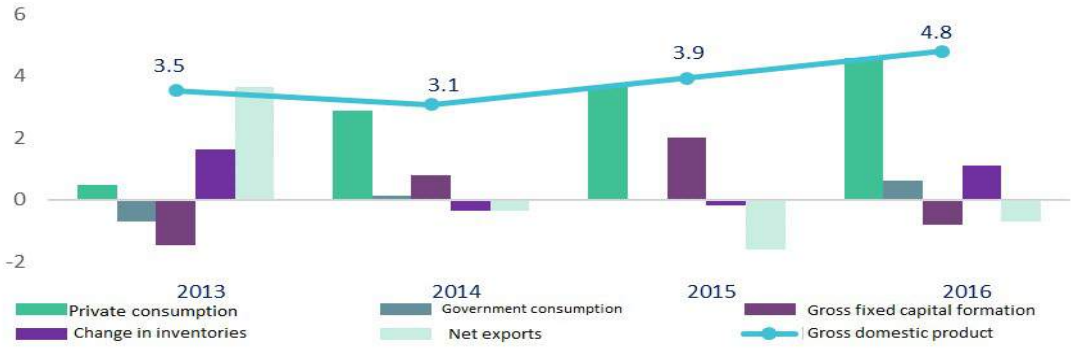
A critical event in Europe was the June referendum, when the British voted to leave the EU. The United Kingdom's economy withstood the Brexit shock, but the pound sterling severely fell against the Euro, by about 14%, in the ensuing period, at the same time with the reduction in the price of bank stocks in the Euro zone. The uncertainty induced on the financial markets gradually dissipated. The stock exchange evolution improved in the last quarter, with a positive impulse from Donald Trump's victory, with his vision on the implementation of the tax relaxation programme. The stock exchange indexes partially recovered the losses from the beginning of the year, with annual growths in England (FTSE by 14.4%), Germany (DAX by 6.9%), France (CAC by 4.9%), and Romania (BET by 1, 2%).

The Romanian economy was not influenced by the main European events (Brexit, referendum in Italy, situation in Turkey), being, to some extent, disconnected from international financial shocks. The GDP growth accelerated to 4.8%, mainly supported by internal demand, under the influence of national tax reduction measures, and in part by exports, due to the favourable international demand, in the context of the consolidation of growth in partner European economies. Furthermore, high confidence of international investors led to a flow of direct investments by

non-residents of Eur4.1 billion (2.4% of GDP), that is 17.9% above the previous period, whereas the current account deficit (-2.3% of GDP) and the goods and services deficit (-0.9%) were within sustainable limits.

Private consumption – with a dominant contribution in the GDP growth (+4.6 pp contribution to the 4.8% GDP growth) – reacted to the reduction of the general VAT rate, being stimulated, on one hand, by the high rates of return of commerce and services operators, and, on the other hand, by wage raise in both the public and private sectors. Though this was the highest growth in the past years (+7.5%), the rate slowed down from 9.1% in Q1-2016 to 4.5% in Q4-2016, on the background of the fading of the effect of food VAT cut back. The other component of domestic demand – gross fixed capital formation – reduced by 3.3% on the previous year, since the increase in January – September 2016 was not counterbalanced by the severe decline of the IVth quarter (-14.2%). To compensate, the change in inventories contributed positively to the GDP growth (+1.1 pp) and the net exports contributed negatively to GDP (-0.7 pp compared to -1.6 pp in 2015).

Contribution of the categories of uses in the GDP growth, in 2013-2016



Source: INS, FSA calculations

In terms of GDP formation, the services were the major drive for economic growth, including, in order of contribution commerce and transport (+1.9 pp), information technologies and communication (+0.7 pp), support services for companies (+0.5 pp); compared to the modest contribution of the industry, alongside agriculture and constructions (+0.5 pp together).

The annual inflation rate remained negative for a second year in a row, but it decreased to -0.54% in December 2016 (from -0.67% in the previous month). Subsequently, it became positive in January – March 2017 and it is estimated to gradually increase up to 1.6% in December 2017 and to 3.1% in December 2018. The prices of foodstuffs increased by 0.68% at the end of 2016 (fading of the influence of the VAT reduced to 9%), whilst the prices of services and non-food goods went down by 1.83% and 0.87% respectively, due to the general VAT rate being reduced from 24% to 20%.

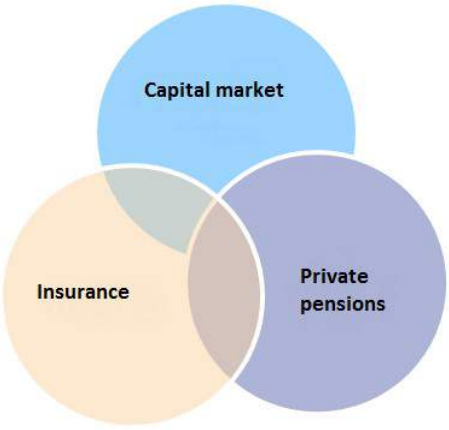
The acceleration of the economy was also reflected in improvements of conditions on the labour market, with an average increase in the number of employees of 3.4% (compared to 2.3% in 2015 and 1.4% in 2014), and a decreasing trend of the unemployment rate throughout the year, from 6.6% towards 5.5%. The financial resources of the companies and the successive increases of minimum wages led, alongside increased employment, to the maintenance of the high rate of growth of net wages in the private sector (+11.1%), but wages growth was more pronounced in the government sector (+20.9%). The growing trend in the population income and the Lei loan facilities will continue to encourage domestic demand, yet the effects will also be translated in inflationary pressures.

In December 2016, Romania's public and international debt stabilised at 37.5% and 55.2% of the GDP, respectively; however, the increase in the public administration deficit to 3.0% of GDP in 2016 and its maintenance around this level on the medium-term could affect public debt. In the scenario of the NPC, the more pronounced GDP growth in 2017, to 5.2%, and up to 5.5%, in 2018, will be accompanied by a slight deterioration in the financial position, with the government debt share of GDP increasing to 38.3%, by the end of 2018. In the more reserved scenario of the European Commission, the maximum rate of economic growth has already been reached in 2016, and a decrease down to 4.3% and 3.7% respectively should follow in 2017-2018, caused by the reduction in the role of consumption. In this context, the ESA budget deficit will exceed 3.5% of GDP and the government debt will reach 40.9% of GDP, in December 2018.

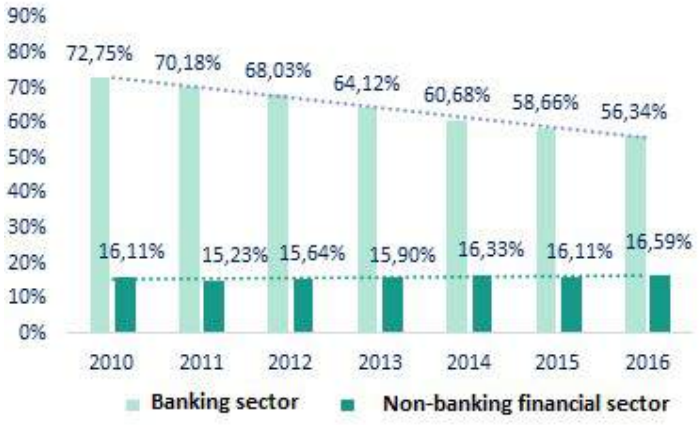
Non-Banking Financial Markets Developments

What is the share of financial markets in the Romanian economy?

Non-banking financial markets



Financial sector assets to GDP



Source: FSA calculations, NIS

Though the assets of the banking financial sector are predominant as share of GDP, the non-banking financial sector has been on a growing trend in past years, with the highest growth in the share of assets owned by collective investment entities.

Total assets of financial sector	2010	2011	2012	2013	2014	2015	2016
Banking sector	**72.75%**	**70.18%**	**68.03%**	**64.12%**	**60.68%**	**58.66%**	**56.34%**
Non-banking sector	**16.11%**	**15.23%**	**15.64%**	**15.90%**	**16.33%**	**16.11%**	**16.59%**
Undertakings for collective investment	5.33%	5.01%	5.17%	5.62%	5.90%	5.80%	5.44%
Private pension funds	0.87%	1.21%	1.72%	2.32%	3.02%	3.65%	4.33%
Insurance undertakings	3.15%	3.06%	3.18%	2.85%	2.79%	2.30%	2.46%
Non-banking financial institutions (NFI)	6.76%	5.95%	5.57%	5.12%	4.62%	4.36%	4.36%
Size of financial sector in GDP	**88.86%**	**85.41%**	**83.67%**	**80.02%**	**77.01%**	**74.78%**	**72.93%**

Source: FSA calculations

Who are the consumers on non-banking financial markets in Romania?

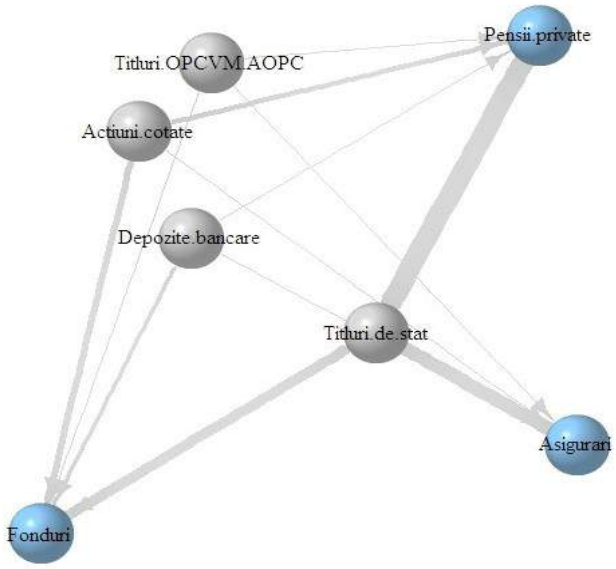
At the end of December 2016, there were

Insurance sector:
- **11.069.299** non-life insurance policies and
- **1.643.581** life insurance policies in force.

Capital market sector:
- **326.680** investors in OIF;
- **89.198** investors in CIF;
- **66.493** investors with accounts with brokers;

Private pensions sector:
- **6,80** million participants in Pillar II;
- **410.241** participants in Pillar III.

How are financial markets inter-connected?



Source: FSA calculations

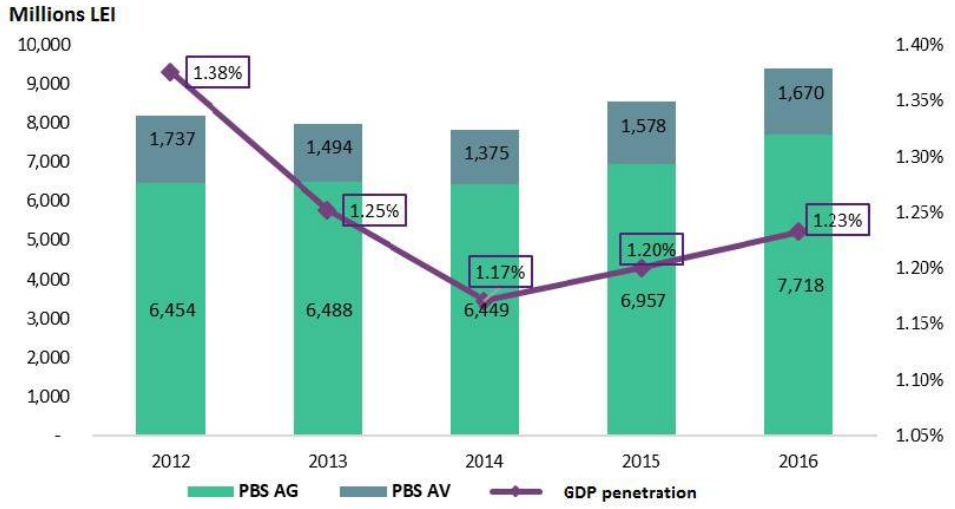
The arrow indicates the direction of shock propagation. Given that a significant share of portfolios of private pension (65%), insurance undertakings (42%) and investment funds (46%) is comprised of government securities issued by the Ministry of Finances, any yield shock has a negative impact on their performance. The exposure by type of instrument (stocks, government securities, bank deposits and UCITS/non-UCITS securities) is indicated by the thickness of the arrow. The direction of the arrow indicates the direction of shock propagation. Lack of connections between entities indicates that no direct shock propagation channels exist.

The Insurance – Reinsurance Market

The size of the insurance market, measured as value of gross written premiums, increased in 2016 both in nominal terms (+9.99%) and as share in the GDP (1.23%).

Due to the advance of the insurance sector over the GDP growth, the insurance penetration rate – computed as the ratio of the cumulated value of gross written premiums for life and non-life insurance to the gross domestic product – increased to 1.23% in 2016, thus reversing the downwards trend of 2012-2014.

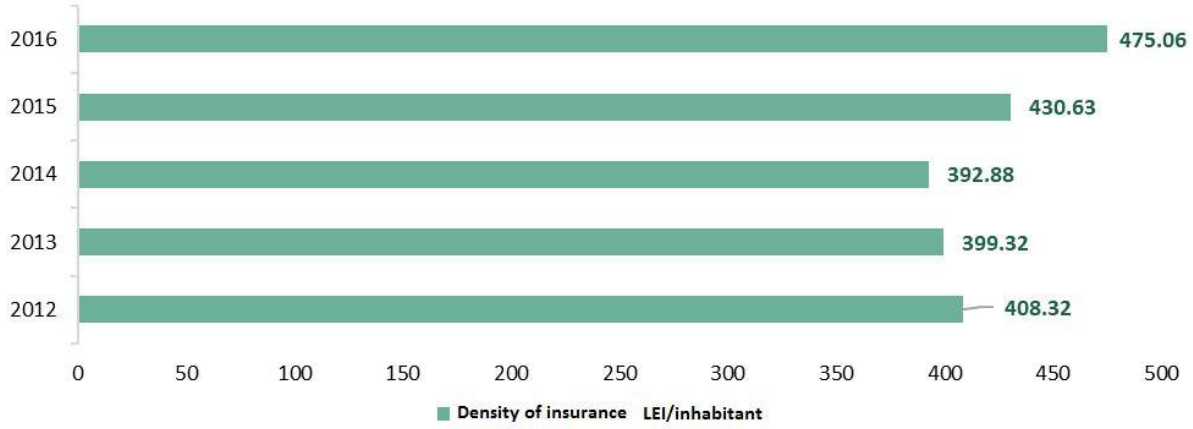
Evolution of gross written premiums in 2012 - 2016



Source: FSA calculations

The insurance density – calculated as the ratio of the gross written premiums to the total population – increased in 2016 compared to 2015 by approximately 10% (+44.43 Lei/inhabitant), at 475.06 Lei/capita.

Density of insurances in 2012-2016



Source: FSA calculations

In 2016, the insurance undertakingss totalled gross written premiums in amount of Lei 9,387,338,725. Of the 31 insurance undertakings active at the end of 2016, 17 provided only non-life insurance ("Non-Life"), 7 provided only life insurance ("Life") and 7 provided both.

In the case of non-life insurance, the highest share in the GDP was held by class A10 (MTPL+CMR, 54%) and class A3 (CASCO, 23%), whilst in the case of life insurance, class C1 GWP's (life insurance, annuities and supplementary life insurance, 67%) were the most numerous.

At the end of 2016, the total amount of MTPL written insurance premiums was of Lei 4,033,634,947, with an approximate increase of 29% on 2015. The average MTLP claim paid out for bodily injuries in 2016 decreased by 11% on the previous year, whilst that for material damages raised overall by 2%, with the average claim remaining relatively constant.

Evolution of MTPL GWP for 2012-2016

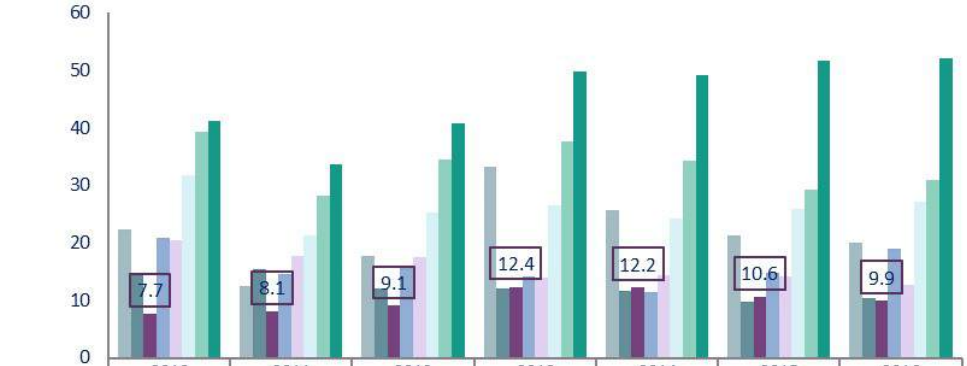
	T4 2012	T4 2013	T4 2014	T4 2015	T4 2016
PBS thousand LEI	1,998,857	2,367,108	2,670,799	3,115,092	4,033,635
No. of policies	6,639,434	6,901,857	7,146,952	7,314,551	7,726,836
No. of policies annual units	4,217,016	4,399,068	4,606,844	4,743,093	4,983,409

Source: FSA calculations

Capital Market

Calculated according to the FESE methodology, the market capitalisation of local companies listed on BVB in GDP decreased in 2016 compared to 2015, on the backdrop of the GDP growth and decline of market capitalisation of local companies. The markets in the Czech Republic and Greece also saw reductions in the local market capitalisation share of GDP, whilst the stock exchanges in Bulgaria, Poland, Germany, Austria and Hungary saw increases.

Domestic market capitalisation in GDP (%)



	2010	2011	2012	2013	2014	2015	2016
Grecia	22.3	12.6	17.8	33.2	25.6	21.4	20.1
Bulgaria	14.4	15.4	12.0	12.1	11.7	9.7	10.5
Romania	7.7	8.1	9.1	12.4	12.2	10.6	9.9
Ungaria	21.0	14.5	15.9	14.1	11.4	14.8	18.9
Cehia	20.4	17.8	17.5	13.9	14.5	14.1	12.7
Austria	31.9	21.3	25.4	26.5	24.2	25.9	27.2
Polonia	39.3	28.3	34.6	37.7	34.3	29.3	30.9
Germania	41.3	33.8	40.9	49.7	49.1	51.8	52.0

Source: FESE, CE, FSA calculation

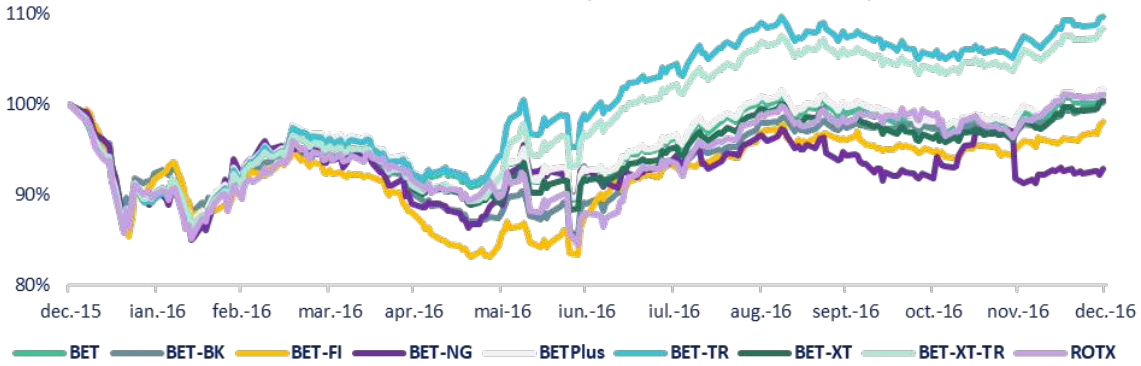
**Romanian domestic market capitalisation does not include Erste and Nepi and is calculated according to the FESE methodology (http://www.fese.eu/)*

On the primary and secondary markets, the overall evolution of the capital market reflects the dynamics of the international capital markets and the results of domestic reforms. During 2016, two new issues took place (government securities of MPF and structured products of SSIF BRK FINANCIAL GROUP SA), as well as 14 primary public offers in total value of Lei 135.92 million.

Overall, in 2016, the general indexes of the Romanian stock exchange had mixed trends. Compared to the end of 2015, on 31.12.2016, a slight decrease in the value of the BET-FI and BET-NG indexes is noticed, by 1.87% and 2.97% respectively.

The total value of transactions on BVB in 2016 went down compared to 2015 by approximately 7.45%, and the number of transactions reduced by about 3.98%. The fall was influenced by the reduced interest of investors in transactions with fund units (traded value decreased by approximately 46.86%) and for transactions with bonds (traded value decreased by approximately 79.83%). The most significant increase in the value of transactions is noticed in government securities, where the total traded value went up in 2016 by approximately 150.28% compared to the previous year.

Evolution of BVB indexes in 2016 (30 December 2015 = 100%)



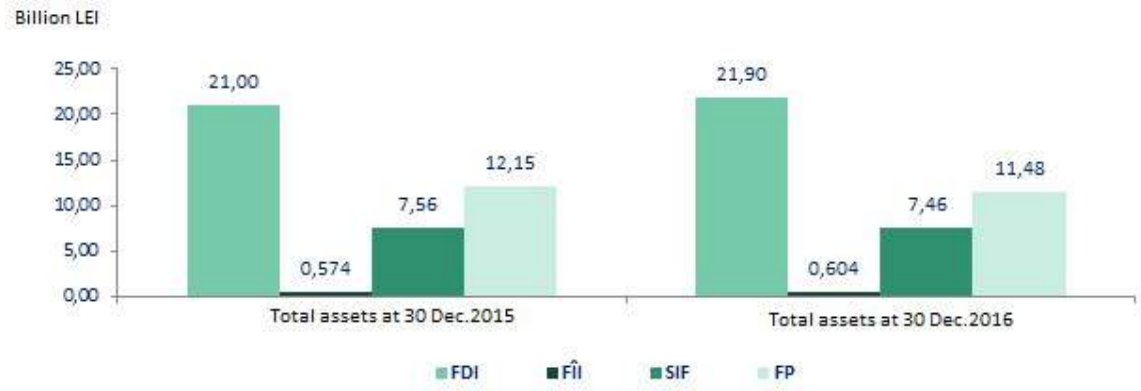
Source: BVB

The total value of the assets managed by local collective investment undertakings (UCI) on December 30th 2016 grew by some 0.4% compared to the end of December 2015. An analysis by categories of collective investment shows that, in the case of open end investment funds, the positive trends of the previous quarters and years continued, this being the category of UCI's with the most significant contribution to the total assets' growth. In the case of closed end investment funds, an increase of total assets compared to the end of the previous year is noticed, after some of these funds became open end during the past few quarters, this leading to the decrease in the assets of this category of UCIs.

The total assets of the other categories of collective investment entities diminished during the period under review. In the case of financial investment companies, the decrease is of 1.24%, whilst the total assets of the Proprietatea Fund shrank by more than 5.5%.

The total assets of the Proprietatea Fund continued to diminish throughout the 4th quarter of 2016, compared to the end of December 2015, with a value of about Lei 11.47 billion on the reference date, compared to Lei 12.15 billion in December 2015. The reduction in the assets of the Proprietatea Fund over the latest quarters is due to the shares buyback and cancellation programmes that also caused the decline of the Fund's share capital.

Evolution of total assets of funds by category of UCI

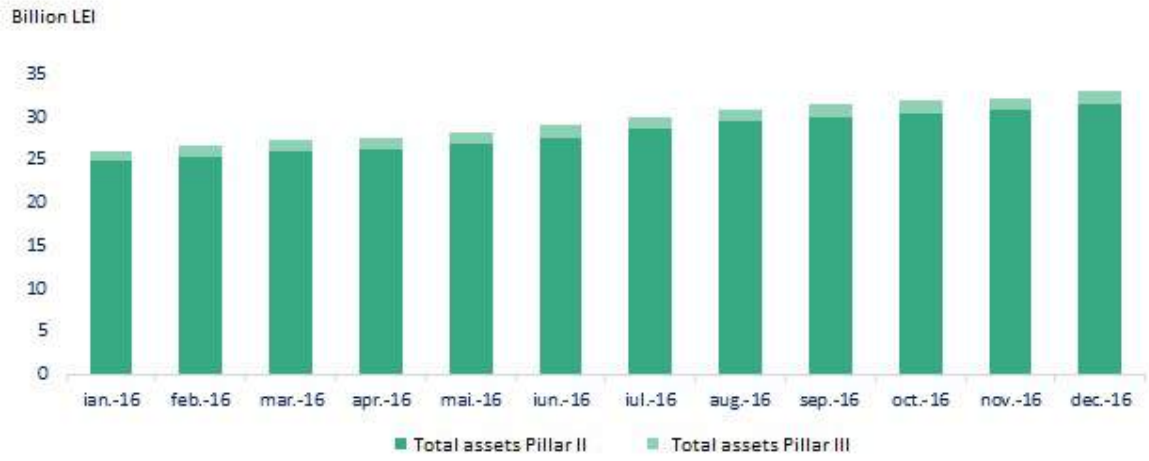


Source: FSA

Private Pensions Sector

The total assets under management in the entire private pensions system increased throughout 2016, maintaining the positive trend of the previous years. Thus, on the 31st of December 2016, the system had Lei 32.99 billion (Eur 7.26 billion). The annual growth rate of the total assets was 27.16%.

Evolution of total assets in private pension system – January 2016 – December 2016

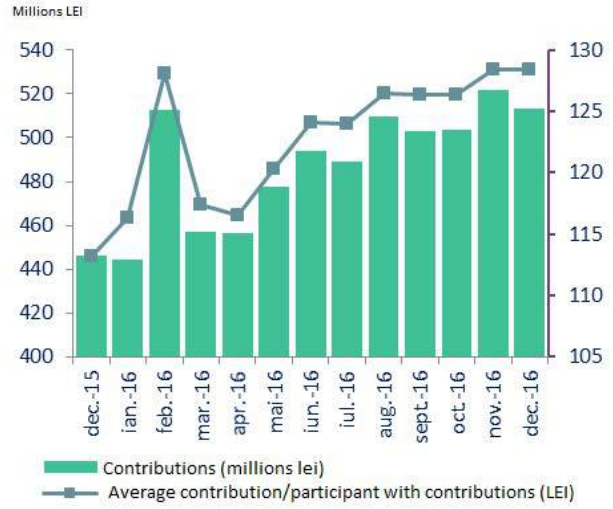


Source: FSA calculations

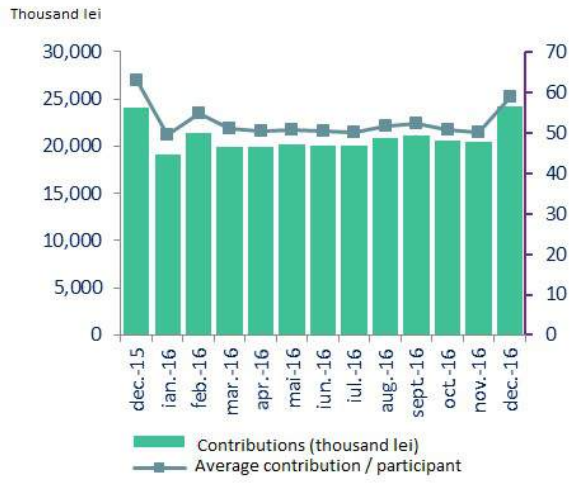
The privately managed pension funds (Pillar II) maintained a higher annual growth rate than the voluntary pension funds (Pillar III), typical for the nine years since it has been in operation: 27.53% vs. 19.91% in Pillar III.
On the 31st of December 2016, the average account for the approximately 6.67 million participants with active accounts was of Lei 4,719 (Eur 1,039), whilst the average value of an account in Pillar III for its 410,241 participants was of Lei 3,660 (Eur 806).

Trends in gross contributions

Pillar II



Pillar III

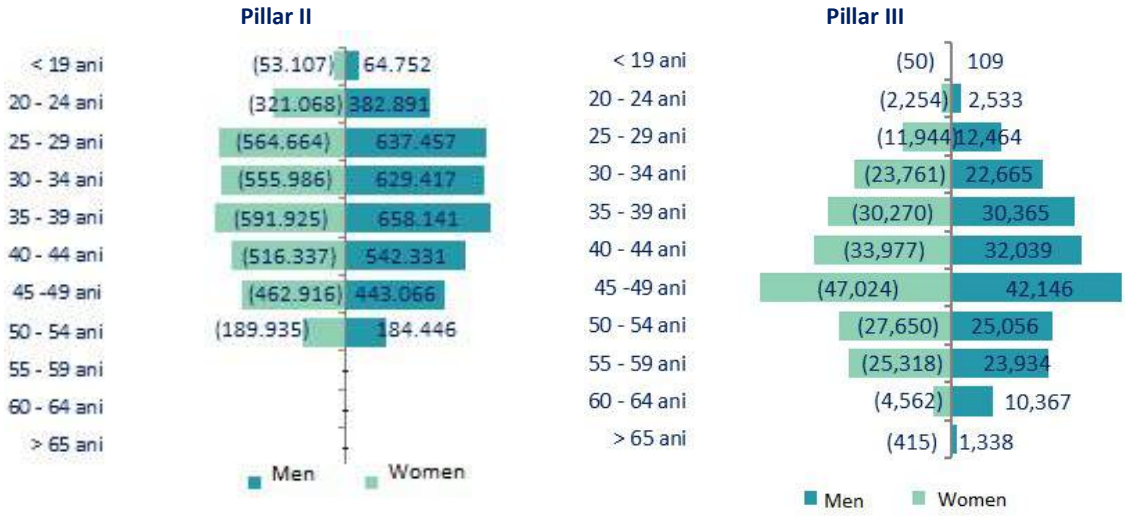


Source: FSA calculations

Overall, throughout the last year, Lei 5.88 billion (Eur 1.31 billion) were paid into privately managed pension funds, with an average of Lei 490.23 million /month. The voluntary pension funds received contribution in amount of Lei 246.30 million (Eur 54.24 million).

Over the entire 2016, 257 thousand persons joined the privately managed pension funds (Pillar II), which is 3.73% less than in 2015. Some 246 thousand of them (95.94% of the total) were allocated randomly. In 2016, 33,155 joined the voluntary pension funds system (Pillar III), which is 17.21% less than in the same period of 2015 (40,047 persons).

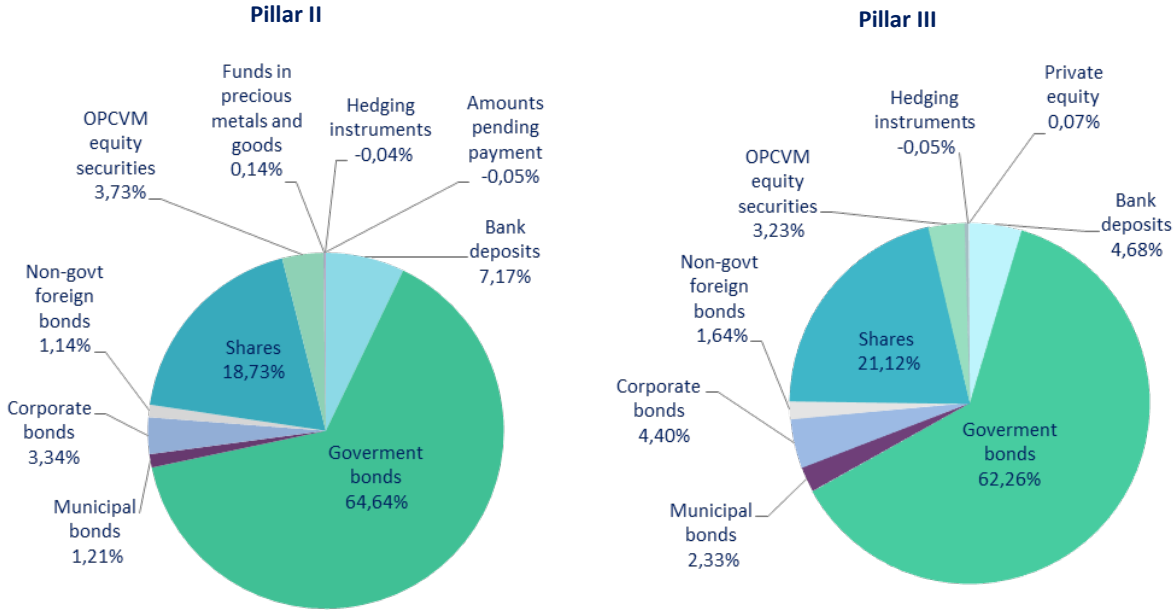
Structure of participants by age and gender at 31.12.2016



Source: FSA calculations

In terms of allocation of financial resources by various classes of assets, in the case of privately managed pension funds, except for bank deposits, non-governmental foreign securities and commodity precious metals funds, all the other instruments registered decreases in December 2016 compared to the same month of 2015. In the case of voluntary pension funds, the government securities, municipal bonds and corporate bonds registered reductions compared to December 2015.

Structure of pension funds' assets at 31.12.2016



Source: FSA calculations

EURUSD - 1,35379 - 00:00:00 14 giu (EEST)
EURUSD (Bid), Ticks, # 300 / 300
23:35
23:40
23:46
23:51
06/01/2014
Gold, spot - 1.276,820 - 23:00:00 13 giu (CEST)
Gold, spot (Bid), 1 minute, # 159 / 300, Logarithmic, Heikin Ashi
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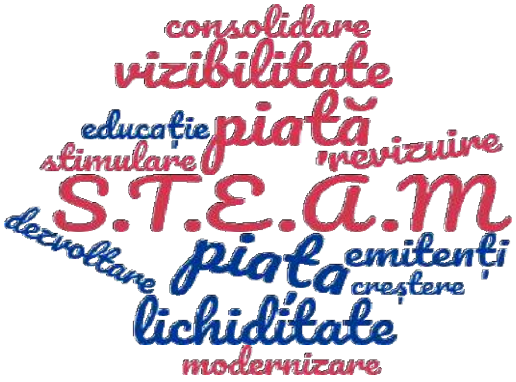
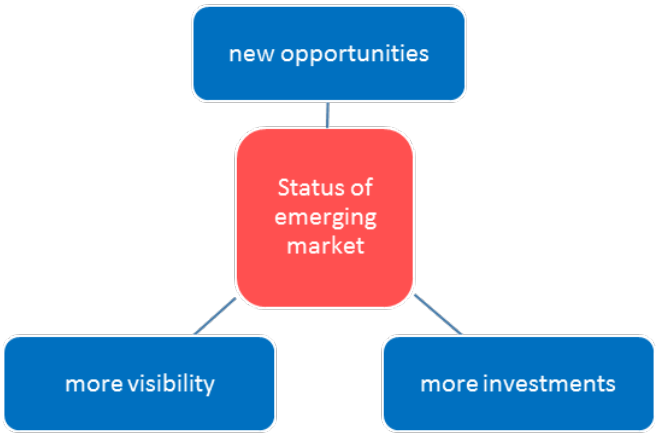
CAPITAL MARKET

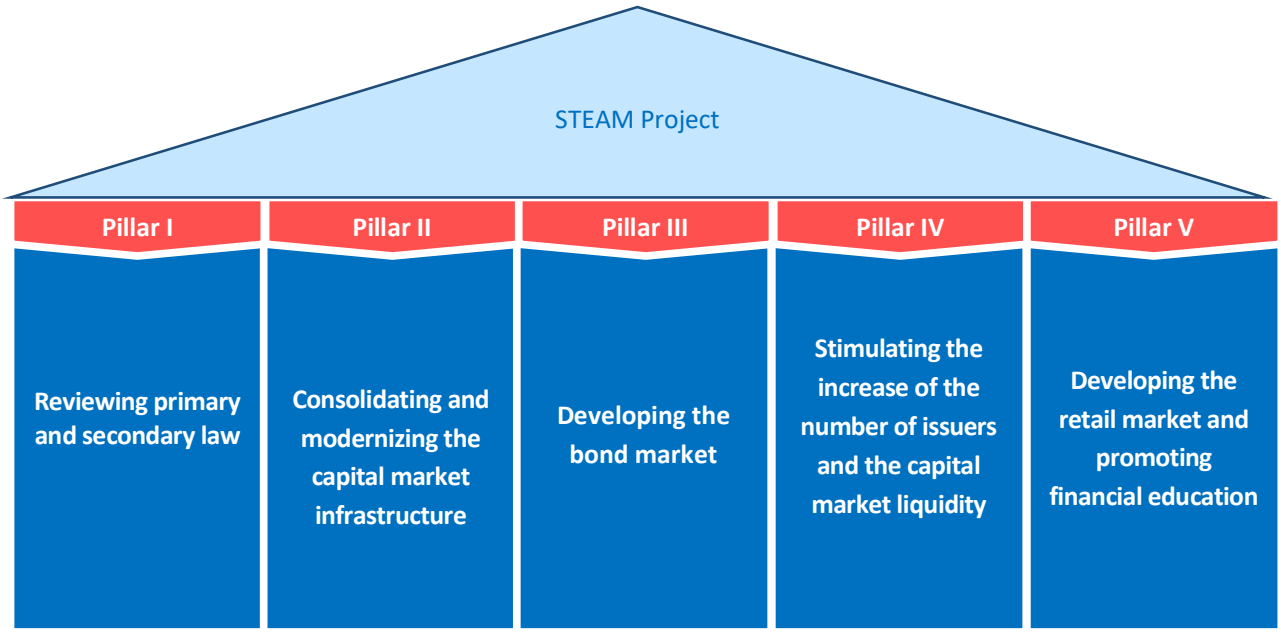
The STEAM Project - Status of Emerging Market

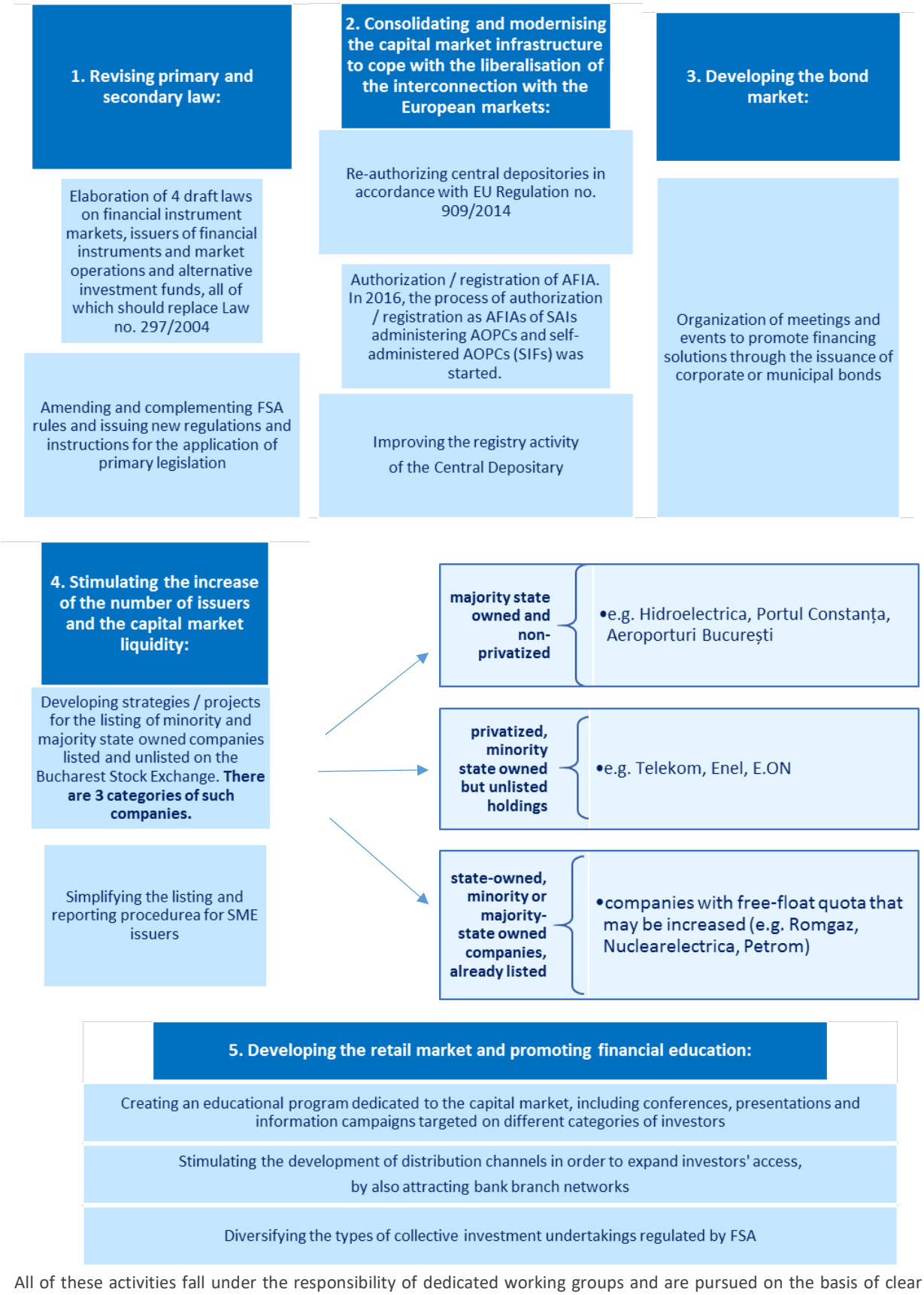




In 2016, FSA continued its efforts started in 2015 to meet the primary objective of its capital market strategy, namely to achieve the "emerging market" status, an objective undertaken as part of the STEAM Project for the capital market.

Being a large-scale project with a wide range of actions, it was necessary to structure it on 5 major pillars, each of which contains specific objectives and actions:





All of these activities fall under the responsibility of dedicated working groups and are pursued on the basis of clear implementation calendars so that criteria related to the size, liquidity and accessibility of an emerging market are met as quickly as possible.

The STEAM project initiated and implemented by FSA is one of the main measures leading to the emerging market status, a key factor being the increase in the current levels of total turnover, of free float and liquidity.

Reviewing primary and secondary law

Primary law concerning financial instruments and investments

1. Regarding the review of capital market specific primary and secondary legislation, FSA developed **a draft law applicable to issuers**, starting from the relevant provisions of Law no. 297/2004, a project which resulted in **Law no. 24/2017**.

This law aimed at:

Transposing into national law the following provisions:

- **Directive 2013/50/EU** of the European Parliament and of the Council amending Directive 2004/109/ CE of the European Parliament and of the Council on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market, Directive 2003/71/EC of the European Parliament and of the Council on the prospectus to be published when securities are offered to the public or admitted to trading and Commission Directive 2007/14/EC laying down detailed rules for the implementation of certain provisions of Directive 2004/109/EC (transposition deadline: 27 November 2015);
- **Directive 2014/57/EU** of the European Parliament and of the Council on criminal sanctions for market abuse (market abuse directive), published in the Official Journal of the European Union no. 173/12.06.2014 (transposition deadline: 3 July 2016)

Optimising the transposition of the relevant Directives covering the operation of issuers

- previously carried out in Law no. 297/2004), including through increasing the precision and clarity of the law wording (Directive 2001/34/CE, Directive 71/2003/CE, Directive 2004/25/CE, Directive 2004/109/CE).

Harmonising the draft law with the provisions of EU Regulation no. 596/2014

- **of the European Parliament and of the Council on market abuse** and repealing Directive 2003/6/EC of the European Parliament and of the Council and Commission Directives 2003/124/EC, 2003/125/EC and 2004/72/EC.

The novelty elements of the new draft law compared to the current provisions of Law no. 297/2004 are a series of provisions and measures aimed at i**ncreasing the transparency, integrity and competitiveness** on the capital market. Among these measures, we mention for example the following:

1. reducing the administrative burden on small and medium-sized issuers in order to facilitate their access to capital;
2. enhancing the integrity of European financial markets by establishing criminal sanctions for the most serious market abuses committed intentionally;
3. providing a regulatory framework for detecting capital market abuses including insider dealing, unauthorized disclosure of inside information and market manipulation as well as measures to prevent and avoid market abuse to ensure the integrity of the capital market and strengthen protection and confidence investors in this market

2. In the context of the adoption of *Directive 2014/65 / EU of the European Parliament and of the Council of 15 May 2014 on financial instruments markets and the amendment of Directive 2002/92 / EC and Directive 2011/61 / EU*, hereinafter referred to as MiFID II, which is to apply from 3 January 2018, the ***draft Law on Financial Instruments Markets*** has been developed.

The main purpose is to transpose the provisions of the above-mentioned Directive into national law. The issue of the new law implies the repeal of certain provisions of Law no. 297/2004 andthe taking over and adaptation of the provisions concerning the central depository, clearing houses, central counterparties, financial audit, special management measures and administrative liquidation according to the requirements of the new European regulations.

The main changes proposed by this law, derived from the transposition of MiFID II, are:

- moving OTC transactions to trading venues by establishing the trading obligation on them for certain financial instruments such as shares and derivatives and setting up a new trading venue – OTF - for instruments other than capital market instruments;
- increasing the importance of independent operators by expanding the range of financial instruments that can be traded;
- introducing the algorithmic trading concept that represents the trading of financial instruments on the basis of a computerized algorithm that sets automatically, with minimal human intervention or without human intervention, some individual parameters of orders, such as order initiation, moment of initiation, price or quantity of the order or how the order is to be administered after it has been sent;
- expanding the list of investment services and activities with OTF management;
- Enhance transparency by extending pre- and post-trade requirements to equity-like instruments (e.g. depository receipts, exchange-traded funds and certificates) and non-equity instruments (e.g. bonds, structured finance products, emission allowance and derivatives),
- improving investor protection by setting more stringent requirements for portfolio management, investment advice, and the offer of complex financial products such as structured finance products,
- establishing new entities as a result of the extension of transaction reporting obligations: Approved Publication Arrangement (APA), Consolidated Tape Provider (CTP), Approved Reporting Mechanism (ARM);
- approved publication arrangement (APA) - publishes trading reports on behalf of investment companies;
- Consolidated Tape Provider (CTP) - collects trading reports from regulated markets, MTFs, OTFs and APAs and consolidates them into a continuous flow of real-time electronic data to provide information on price and volume for each financial instrument;
- Approved Reporting Mechanism (ARM) - reports transactions to competent authorities or ESMA on behalf of investment firms.

3. At the same time, **the draft Law on the amendment and completion of the Emergency Ordinance no. 32/2012 on undertakings for collective investment in transferable securities and investment management companies,** as well as for amending and completion of Law no. 297/2004 on capital market resulted in Law no. 29/2017.

The main purpose of this law is to harmonize the UCITS national legislation with the European legislation, by transposing into the primary legislation the provisions of Directive 91/2014/EU of the European Parliament and of the Council of 23 July 2014 for the amendment of Directive 65/2009 / EU on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS) as **regards depositary functions, remuneration policies and sanctions (UCITS V).**

Thus, the adoption of the normative act will determine the harmonization of the national legal framework with the recent amendments to the acquis communautaire regarding the **IMC, the UCITS and the UCITS depositories.**

The amendments proposed by this normative act mainly concern the following novelty aspects:

Entities that may hold the quality of UCITS depository are the National Bank of Romania, credit institutions (authorized by the NBR or the competent authorities of another Member State) as well as other legal entities that meet the capital requirements applicable to credit institutions, as well as a number of other infrastructure criteria and its own operating rules.
The depositary of the UCITS must make sure that the sale, issue, redemption or cancellation of units is carried out by the IMC or another entity on behalf of the UCITS under the provisions of GEO no. 32/2012, FSA regulations and fund rules/act of incorporation of the self-managed investment company. The depositary must also ensure that the value of the units is calculated according to the rules of the fund / act of incorporation of the self-managed investment company and the provisions of the present draft law. At the same time, the depositary shall ensure that the cash flows of the UCITS are duly monitored and, in particular, that all payments made by or on behalf of investors to the UCITS subscription have been received and that all the cash of UCITS has been booked in cash accounts opened on behalf of UCITS or the IMC acting on behalf of the UCITS or of the depositary acting on behalf of the UCITS.
For assets that cannot be safely held (in custody), the depositary must verify the ownership by UCITS or by the IMC acting on behalf of the UCITS by analysing whether the UCITS or the IMC acting on behalf of the UCITS holds the ownership on the basis of the information or documents provided by the UCITS or the IMC and, if available, other external evidence. The depositary shall also keep a record of the assets for which it is convinced that the UCITS or the IMC acting on behalf of the UCITS holds the ownership and shall periodically update that record.
The depositary is permanently liable for any loss suffered by the unit-holders caused by its negligence or intentional failure to perform its tasks.
The new rules set out in the normative act oblige the IMCs not to take any dangerous or excessive risk, only with the purpose of achieving their bonus targets or variable remuneration based on certain profitability / profitability thresholds of UCITS investments.
The sanctions applied by FSA must be published without delay on the institution's official website (with the express nomination of the persons responsible for committing the legislative deviations and only after exhaustion of any remedies before the FSA for the respective sanctions or administrative measures imposed as a result of the breach of the provisions of this draft normative act), except when it is considered that the publication of this information would be detrimental to the financial stability of the markets or an ongoing investigation.

4.

At the same time, the ***Draft law on alternative investment funds*** was debated and analysed within the working group set up together with the market representatives. This draft law is also included in the Technical Assistance Project provided by the World Bank and funded by the European Commission.

The draft law includes a new classification of current non-UCITS according to the type of investor (professional or retail), the investment strategy pursued and the types of eligible assets. These new categories of collective investment undertakings are configured on the basis of the investment strategies listed in (EU) Regulation No. 231/2013, which is part of the legislative package of Directive 61/2011 /EU - AIFMD and the experience gained by other EU Member States, taking into account the comments received from the Association of Fund Managers in Romania and other members of the consultative working subgroup created by FSA to support the process of drafting the new legislative package.

Secondary legislation issued by FSA in the field of financial instruments and investments

The activity of developing the regulations (norms, regulations, instructions, decisions) in order to create or complete the legal framework for the proper conduct of the activity of the regulated and supervised capital market entities had the following main coordinates:

Drafting the regulations for the application of the legislation in force and for transposing the acquis communautaire

Drafting of the regulations as a result of some requests by the markets participants in order to change or complete some legal provisions.

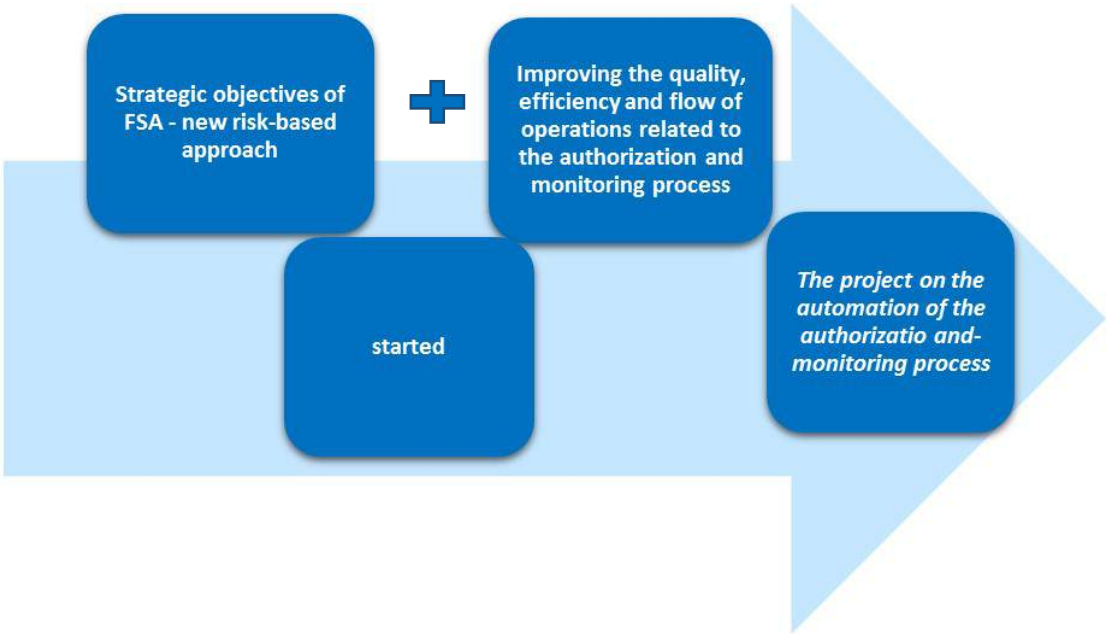
Drafting of the regulations as a result of the changes occurred in the normative acts issued by the Romanian Parliament or by the Government of Romania, as well as in the European legislation regarding the capital market, the implementation of which imposed an amendment of the regulations in force, insofar as they did not imply the amendment of Law no. 297/2004.

REGULATIONS		
1	**REGULATION No. 1/2016** amending Regulation No. 9/2015 of the FSA on the settlement procedure by the entities regulated and supervised by the FSA under Capital Market Law No. 297/2004 and Law No. 74/2015	• Amends art. 1, 3 and 7, as well as annexes 1 and 2 of Regulation no. 9/2015
2	**Regulation no. 5/2016** amending and supplementing the Regulation of the Financial Supervisory Authority no. 10/2015 on alternative investment fund management.	• Amends art. 7, 19 and 44, as well as annex 1 of Regulation no. 10/2015
3	**Regulation no. 6/2016** for the amendment and supplementation of Regulation No. 32/2006 of the CNVM regarding financial investment services and for the amendment of Regulation No. 5/2010 of the CNVM	• Amends several articles of CNVM Regulation No. 32/2006 and CNVM Regulation no. 5/2010
INSTRUCTIONS		
1.	**Instruction no. 1/2016** on the preparation and submission of the annual financial statement and annual reporting by entities authorized, regulated and supervised by the Financial Supervisory Authority	• Establishes the manner of preparation and submission of annual reports to the territorial units of the Ministry of Finance, separately from the annual financial statements, by the entities authorized, regulated and supervised by the Financial Supervisory Authority , which are required to apply the provisions of the Financial Supervisory Authority Rule no. 39/2015 approving the Accounting Regulations compliant with International Financial Reporting Standards, applicable to entities authorized, regulated and supervised by the Financial Supervisory Authority, hereinafter referred to as Rule no. 39/2015
2.	**Instruction no. 2/2016** on the preparation and submission of half-yearly accounting reporting by entities authorized, regulated and supervised by the ASF	• Lays down the system of half-yearly accounting reporting by entities authorized, regulated and supervised by FSA - the Financial Instruments and Investments Sector,
RULES		
1.	**Rule no. 28/2016** for the application of ESMA Guidelines on alternative performance measures	• The rule stipulates that FSA applies the ESMA Guidelines on alternative performance measures (APM) published by issuers or persons responsible for the prospectus when issuing regulated information and prospectuses (and supplements). Examples of regulated information covered are management reports, which are published on the market under the Transparency Directive, and publications issued as required by article 17 of the Market Abuse Regulation, for example ad hoc publications including gains on financial results.

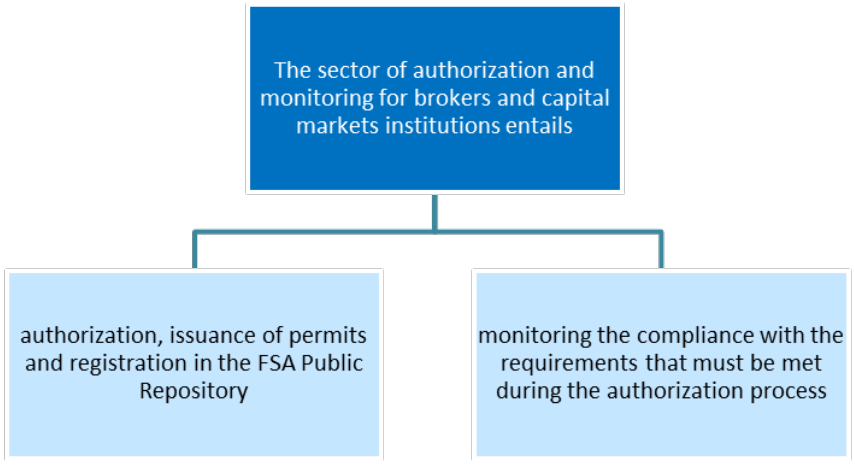
2.	**Rule no. 32/2016** for the application of Guidelines regarding systems and controls in an automated trading environment for trading platforms, investment firms, and competent authorities and repealing executive orders of the National Securities Commission	• The Financial Supervisory Authority applies the Guidelines regarding systems and controls in an automated trading environment for trading platforms, investment firms, and competent authorities stipulated in annex no. 1 as part of their activity performed to supervise and control compliance with the legal stipulations transposing the provisions of Directive 2004/39/EC of the European Parliament and of the Council of 21 April 2004 on markets in financial instruments amending Council Directives 85/611/EEC and 93/6/EEC and Directive 2000/12/EC of the European Parliament and of the Council and repealing Council Directive 93/22/EEC and Directive 2003/6/EC of the European Parliament and of the Council of 28 January 2003 on insider dealing and market manipulation (market abuse), applicable to the systems and controls imposed for the trading systems and for mediators, in an automated trading environment or related to the provision of direct market access or sponsored access.

Authorization and monitoring of the capital market

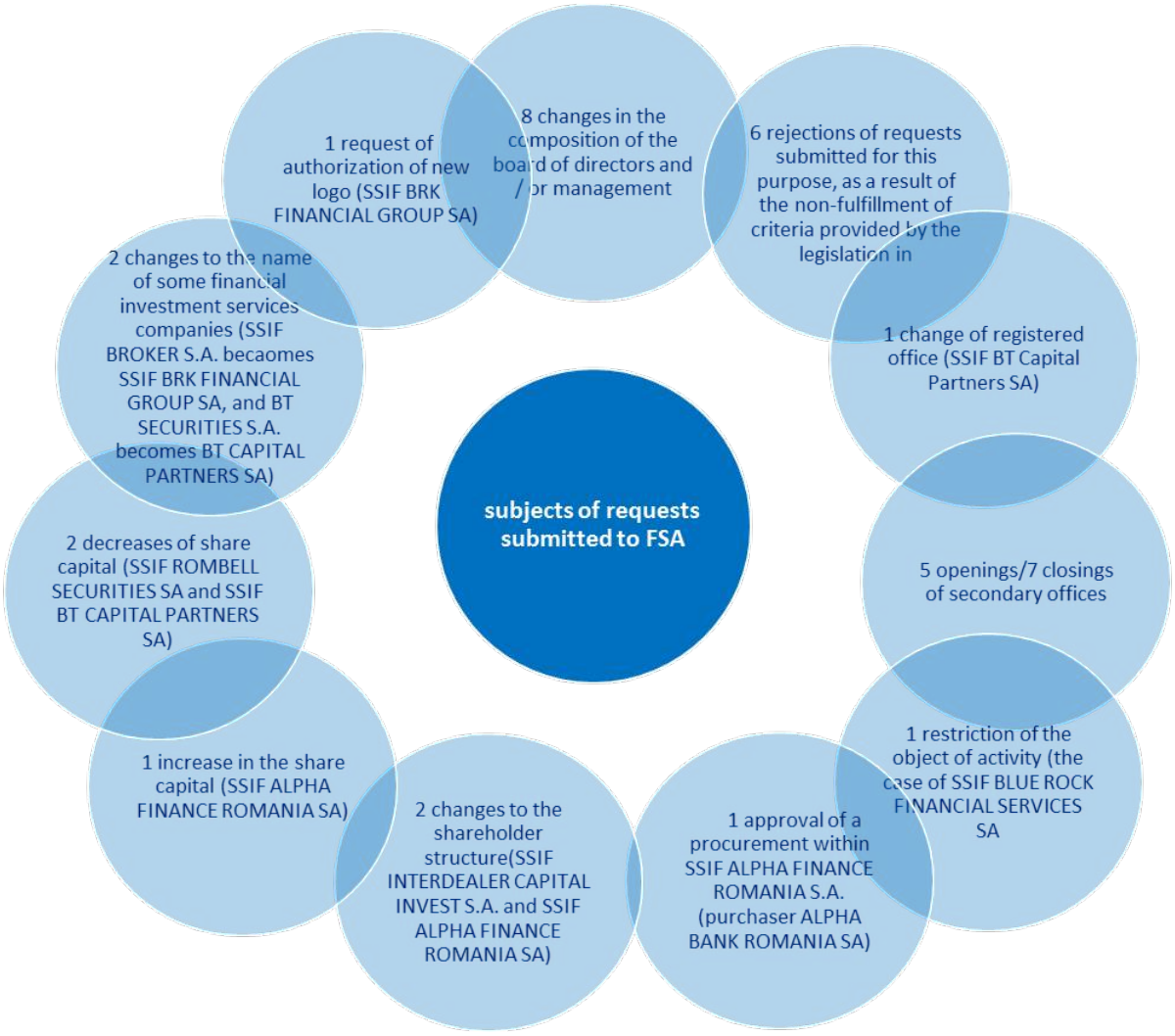
Authorization and monitoring of intermediaries, capital market institutions and collective investment undertakings



The authorization-monitoring process automation project aims at increasing the efficiency and performance of the authorization and monitoring activity by developing and implementing an integrated FSA-computerized system that centrally manages all existing data and information categories.



Judging from the subject of the FSA requests submitted in 2016, we see that the key issues concerned were the changes in the **organization and functioning of the entities in the FSA records**.



In 2016, the previous years' trend to reduce the number of intermediaries (investment firms and credit institutionsCI) active on the capital market continued. Thus, on 31.12.2016, 27 IF and 8 credit institutions were registered in the Public Register of FSA. Throughout the year, the operating licenses of 3 IFs (Dorinvest SA, Equity Invest SA and Eldainvest SA) were withdrawn.

Of the IFs in the FSA records at the end of 2016, 52% were authorized to provide all the financial investment services and activities as well as the auxilliary services provided by art. 5 par. (1) and par. (11) of the Law no. 297/2004 regarding the capital market, as subsequently amended and supplemented, with an initial capital equal to the equivalent in Lei of EUR 730,000, and 48% did not trade financial instruments on their own account and did not subscribe in the securities issues in the basis of a firm commitment. Regarding the operation on the regulated markets authorized by FSA of the credit institutions registered in FSA, 62.5% of them had the status of participants as well as the custodian (Bancpost SA, Banca Comerciala Romana SA, BRD Groupe Société Générale SA, Raiffeisen Bank SA, Piraeus Bank Romania SA) admitted to the clearing-settlement system administered by the Central Depository SA. Also, the capacity of participants-custodians was held by two other credit institutions, namely: Libra Internet Bank SA and Unicredit Bank SA. The credit institution Alpha Bank Romania SA is not in any of the aforementioned situations, it carries on the capital market the object of activity mentioned in art. 5 par. (1) lit. (a), (g), (1^1) lit. c), e) of Law no. 297/2004, as subsequently amended and supplemented.

Starting with 01.01.2016 the Regulation no. 14/2015 **on the evaluation and approval of the members of the management structure and of the persons holding key positions within the entities regulated by the Financial Supervisory Authority** which aimed to achieve a set of uniform rules by standardizing the criteria and procedures necessary for the evaluation and approval members of the management structure and staff with key functions within the entities controlled by the FSA. Under this regulation, applicable to all entities authorized, regulated and supervised by FSA, the assessment of the persons in the management structure and the key persons includes the process of interviewing these persons.

Personnel of regulated entities authorized and supervised by FSA

In the case of agents for financial investment services (AFIS) and tied agents (TA) providing investment services and activities on behalf of brokers operating on the Romanian capital market, the previous years' trend continued to reduce the number of staff in the above-mentioned categories. On December 31, 2016, 97 representatives of the internal control department were operating at the registered offices of intermediaries, market operators and central depositaries, or within the branch offices of a branch type that the IF had set up within the network territorial. Also, following the emergence of the IF's obligation to also submit for authorization those responsible for risk management under Regulation 14/2015, between 23 January 2016 and 31 December 2016, 23 persons were authorized as risk managers.

Capital market institutions

in 2016 the alignment of the acts of incorporation of market operators / system operators was approved, in order to comply with the provisions of art. 286^4 of the Law no. 297/2004, as subsequently amended and supplemented, namely the quorum conditions and the majority vote required for the holding of the extraordinary general meetings of the shareholders and the adoption of the decisions.

At the same time, during the year 2016, 2 changes of the market authorizations of the market operators were approved due to the modification of the GB membership, by the appointment of new directors, out of which a provisional one which was subsequently finalised. As a result, 10 persons were authorized as managers of market operators.

Another change in the organization and functioning of the market operator Bucharest Stock Exchange, which took place in 2016, was the withdrawal by the FSA of the Authorization of the Futures Market managed by this market operator. Withdrawal of the authorization of the regulated market occurred as a result of its period of inactivity, during which the market operator Bucharest Stock Exchange did not enter into a clearing-settlement agreement for

derivative transactions with a central counterparty authorized according to the EMIR provisions. At the same time, as a result of the withdrawal of the authorization of the regulated futures market, administered by the market operator Bucharest Stock Exchange, FSA proceeded to the simultaneous deletion of all 21 corresponding financial derivatives that were registered with FSA.

Central depositaries

In 2016, the persons responsible for risk assessment and management (key functions under Regulation 14/2015) were authorized within the companies Depozitarul Central SA and Sibex Depozitarul SA.

The authorization process implied an analysis of the way in which these persons met their fit and proper requirements and the eligibility criteria set out in Regulation 14/2015, taking into account the information gathered from the documents submitted, the interview support, and other sources available.

Clearing houses

In 2016, ASF withdrew the operating authorization of Casa de Compensare Bucuresti SA and cancelled the company from the FSA Registry, the Entities Section conducting post-trade operations – Central Securities Clearing House / CCP Subsection as a result of the rejection of its request for authorization as a central counterparty, in accordance with the provisions of FSA Regulation no. 3/2013.
SC Casa de Compensare Bucuresti SA did not carry out any activity during the year 2016.

Investment Management Companies
21 IMCs, out of which
6 manage individual investment portfolios

At the end of 2016, 21 IMCs were listed in the FSA Public Register, of which 6 managed individual investment portfolios, which indicates there are no changes compared to the situation at the end of 2015.

In 2016, several requests for authorization of changes in the organization and functioning of IMCs were submitted at FSA, which mainly focused on the change of registered offices, the increase of the share capital, the change of the composition of the board of directors / the supervisory board or the composition of the effective management (directors / members of the board), the modification of the shareholders' structure. At the same time, in 2016, 3 requests for the approval of the direct / indirect acquisitions of qualified holdings of the share capital of some IMCs were registered, namely a request for approval of the acquisition project regarding the direct increase of qualified participation.

Please note that during 2016, FSA declined to grant the operating authorization to a company as an investment management company, a request registered with FSA in 2015.

Collective investment undertakings
26 open end investment funds
75 closed end investment funds
5 Financial investment companies
Fondul Proprietatea

In terms of collective investment undertakings in Romania, the figures for 2016 show a stagnation in the number of UCITS and at the same time a significant reduction in the number of non-UCITS. Thus, as compared to the situation registered on 30.12.2015, compared to the 74 open end investment funds and the 32 closed-end investment funds, 5 financial investment companies included in the non-UCITS category with the diversified investment policy and SC Fondul Proprietatea SA (non-UCITS of a special type, set up as a closed-end investment company) operating on the Romanian capital market, on December 31, 2016 a number of 75 open end investment funds were registered in the Public Register of FSA , 26 closed end investment funds, to which are added the 5 financial investment companies classified as non-UCITS with the diversified investment policy and SC Fondul Proprietatea SA.

In 2016 FSA granted operating authorization for 2 open-end investment funds, namely: BT FIX open-end investment fund and BT EURO FIX open-end investment fund, while the closed-end investment fund Globinvest - FAPT and the

closed-end investment fund OTP Premium Return s - turned into open-end investment funds under the name of the Open Investment Fund TEHNOGLOBINVEST, namely the Open Investment Fund OTP Premium Return.

At the same time, 3 open end investment funds were removed from the FSA Registry as a result of the merger by absorption by other UCITS or at the request of IMC and the operating authorizations for 4 non-UCITS were been withdrawn as a result of maturity or as a consequence of some merger processes.

In the first quarter of 2016, the process of alignment with the provisions of Regulation No. 9/2014 on the authorization of the changes in the UCITS documents administered by IMCs was completed. At the same time, in 2016, requests for authorization / notification from the IMCs were registered with FSA, most of them concerning changes made in the documents of the collective investment undertakings.

Also in 2016, the process of registration of credit institutions and IFs with the capacity of distributors of the units of collective investment undertakings managed by IMCs was finalized, taking into account the obligation established in this respect by Regulation No 9/2014. Thus, 12 companies were registered as distributors in the FSA Registry.

Ensuring the safekeeping of the assets of collective investment undertakings is carried out by 6 depositories, no changes in the number of registered depositories being registered in 2016.

As far as financial investment companies are concerned, it should be noted that in 2016 FSA approved amendments to the internal regulations, changes in the composition of the boards of directors and the management of financial investment companies, as well as changes in their constituent acts.

Regarding SC Fondul Proprietatea SA, we mention that on August 3, 2014, the Luxembourg authority - the Commision of Surveillance du Secteur Financier notified FSA on the intention of FRANKLIN TEMPLETON INTERNATIONAL SERVICES SARL (acting as alternative fund manager under the Directive 2011/ 61 / EU under the supervision of the Grand Duchy of Luxembourg (CSSF)) to manage Fondul Proprietatea SA. On 29.10.2015, the shareholders of SC Fondul Proprietatea SA approved the termination of the management contract concluded with Franklin Templeton Investment Management Limited United Kingdom Branch Bucharest (FTIML) and the revocation of its mandate as administrator starting with 01.04.2016, respectively the appointment of Franklin Templeton International Services SARL as Administrator of Fondul Proprietatea SA, the management contract concluded with this company being approved by GSM / 29.10.2015 and entering into force on 01.04.2016. As a result of the shareholders' decision to appoint Franklin Templeton International Services SARL as an alternative investment fund manager for SC Fondul Proprietatea SA and to conclude a new Management Agreement between SC Fondul Proprietatea SA and Franklin Templeton International Services SARL, the articles of incorporation was updated and a new deposit contract was concluded with BRD GSG, which was submitted for FSA approval. Regarding the changes in the share capital of SC Fondul Proprietatea SA, we mention that in 2016 FSA issued 3 opinions due to the decrease of the share capital, based on the decisions of the extraordinary general meetings of the shareholders.

With respect to the free movement of services, on 31.12.2016, in FSA's Register were registered: 9 investment management companies based in other EU Member States and licensed to operate in Romania, 37 UCITS from other EU Member States, 4 investment companies and 51 open end investment funds, 21 alternative/closed-end investment companies and 36 managers of alternative investment funds from other Members States, which notified their intention to operate in Romania as per Article 6 (4) of DMAIF.

Considering the entry into force of some legal provisions in 2015 and 2016, which imposed on entities to comply with their provisions in the course of 2016, the following are relevant:

- As regards the Law no.74 / 2015 and the Regulation no.10 / 2015, as subsequently amended and supplemented, requests for authorization / registration as AIFM by the IMCs administering the non-UCITSs and from the self-administered non-UCITS were registered by FSA. In May 2016, 12 investment management companies and 4 financial investment companies submitted to the FSA the documentation for compliance with the above mentioned legal provisions, out of which: 4 IMCs requested voluntarily the authorization as an AIFM, 8 IMCs requested the registration as AIFM, 4 financial investment companies requested authorization as AIFM;
- In order to comply with the legal provisions mentioned above, there have been notifications from the 6 credit institutions that provide non-UCITS asset storage services on the modification of the deposit contracts and the working procedures in accordance with the provisions of Regulation (EU) no. 231/2013;

- Regarding Regulation 14/2015, FSA registered requests from IMCs / FICs for approving, amending and / or notifying the members of the management structure and the persons holding key positions, for the purpose of complying with the provisions Regulation; in view of the amendment of the legislation regarding the obligation of the entities to request the authorization of the persons designated as risk managers and the creation of a specific section for this purpose in the Register of FSA for their registration, authorizing persons in that capacity;
- Regarding the Delegate Regulation (EU) 2016/438 on depository obligations, having regard to its direct applicability in all Member States as of 13.10.2016, requests for authorization of amendments to documents were registered with FSA undertakings for collective investment in transferable securities, in particular by amending depository contracts in accordance with the provisions of the Regulation.

Investment consultants

2 natural persons were authorized as investment consultants. FSA withdrew on request 6 authorizations of investment consultants - natural persons. In 2016 the trend was to reduce the number of people who intend to provide this service on their own.

Evaluators

No changes were made to the list of evaluators registered in the FSA Registry. For this operation, it is necessary for the applicants to meet strict conditions as set out in FSA regulations on issuers and securities transactions. Evaluators should, among other things, be specialized in business appraisal and team up an investment consultant authorized by FSA and also a financial auditor - CAFR member.

IT systems auditors

In 2016, FSA approved 13 requests for authorization as IT auditors (4 individuals and 9 legal entities). FSA Rule no. 6 /23.03.2015 provides for the entities (institutions) in the field of capital market, insurance and private pensions the obligation to audit externally the computer system used, with a periodicity according to the risk category to which they fall in. The date of implementation of the requirements set out in the rule was January 1, 2016, and 30 September 2016 in the case of outsourced IT services. All these entities were required to make the first IT audit by 31 December 2016.

Financial auditors

In the first half of 2016, the process initiated in 2015 as a result of the entry into force of Rule no. 21/2014 on the financial audit of entities authorised, regulated and supervised by the Financial Supervision Authority came into force, establishing the requirements for approval / authorisation of financial auditors that carry out financial audits of entities authorised, regulated and supervised by FSA was completed. Thus, during the above-mentioned period of 2016, FSA approved as financial auditors that can perform audit missions to capital market entities, 15 natural persons and 6 legal entities.

At the same time, on 01.01.2016 Rule 27/2015 regarding the financial audit activity in the entities authorized, regulated and supervised by the FSA came into force, which abrogates the Rule no. 21/2014, a normative act that brings as a novelty the fact that the provisions related to the conditions and the authorization procedure are applicable only to financial auditors which are legal entities. At the same time, according to the provisions of Rule no. 27/2015 the requests of the financial auditors asking for the approval by the FSA, filed and pending before the entry into force of this normative act, shall be solved by the FSA according to the provisions in force at the date of their submission, which made it possible to conclude the alignment to the provisions of Rule no. 21/2014 in the first part of 2016.

In 2016, based on the provisions of the Rule no. 27/2015, 5 legal persons were approved as financial auditors. At the end of 2016, 17 legal persons were published on the FSA website in the auditors section (BDO AUDIT SRL, ERNST & YOUNG ASSURANCE SERVICES SRL, G5 CONSULTING SRL, ROMAR-CO AUDIT SRL, JPA AUDIT & CONSULTANCY SRL, EXPERT AUDIT LOGISTICS CONSULTING AUDIT CONSULTING CONSULTING AUDIT CONSULTING CONSULTING AUDIT CONSULTING CONSULTING CONSULTING AUDIT CONSULTING CONSULTING AUDIT CONSULTING CONSULTING CONSULTING AUDIT CONSULTING CONSULTING AUDIT CONSULTING AUDIT CONSULTING AUDIT CONSULTING AUDIT

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Groups of companies admitted to trading

FSA certified, at the request of OMV PETROM SA, a new change within the OMV group. To ensure the transparency of the information, groups and changes made to them are published on the FSA website in a separate section.

Training organizations

With respect to training organisations that provide programmes leading to certification in various capacities (agent for financial investment services, tied agent, staff of internal audit departments and investment consultants), as well as refresher programmes for the staff of FSA supervised brokers, a new key function within the entities controlled by the FSA, namely the attestation of the quality of the risk manager, were introduced. Thus, the persons certified by traning organisations and subsequently authorized by FSA as risk managers will be able to exercise, within the regulated entities, tasks of assessing and managing the risks resulting from the activity carried out by those entities. With regard to the work done by the traning organizations, 9 authorizations were issued in 2016, which approved series of courses that aimed at certifying the participants in different qualities recognized on the capital market and 8 authorizations for continuous training programs in the form of on-line scientific and professional actions (webinars). Based on the certificates issued by the training organisations for the participants who passed the examinations at the end of the trainings, for the recognition of some qualities on the capital market, FSA issued 182 professional certificates.

On-site and off-site supervision on capital markets

Supervision and inspection activity

Activities planned for 2017 or ongoing activities which continue or strengthen activities undertaken in 2016

The European legislation adopted lately, with significant impact on the capital market, revealed the need to develop adequate methodologies and instruments for the supervision authorities. By creating synergies between the off-site and on-site supervision, FSA will implement an efficient supervision system, both in terms of market behaviour and of compliance with prudential requirements.

In this process, FSA benefits from the support provided by the World Bank which, building on the experience of other Member States and on best practices, will contribute to strengthening the processes already implemented by FSA to increase supervision convergence and to improve the necessary risk identification and mitigation. These objectives are in line with the priorities of the European Commission initiative on the Capital Markets Union, and the project is implemented with the support of the Structural Reform Support Service (SRSS), whose role is to support reforms undertaken by national authorities to promote growth.

While the regulatory efforts of FSA focus mainly on transposing the European legislation, with supervision and inspection we intend to align with best practices in the field.

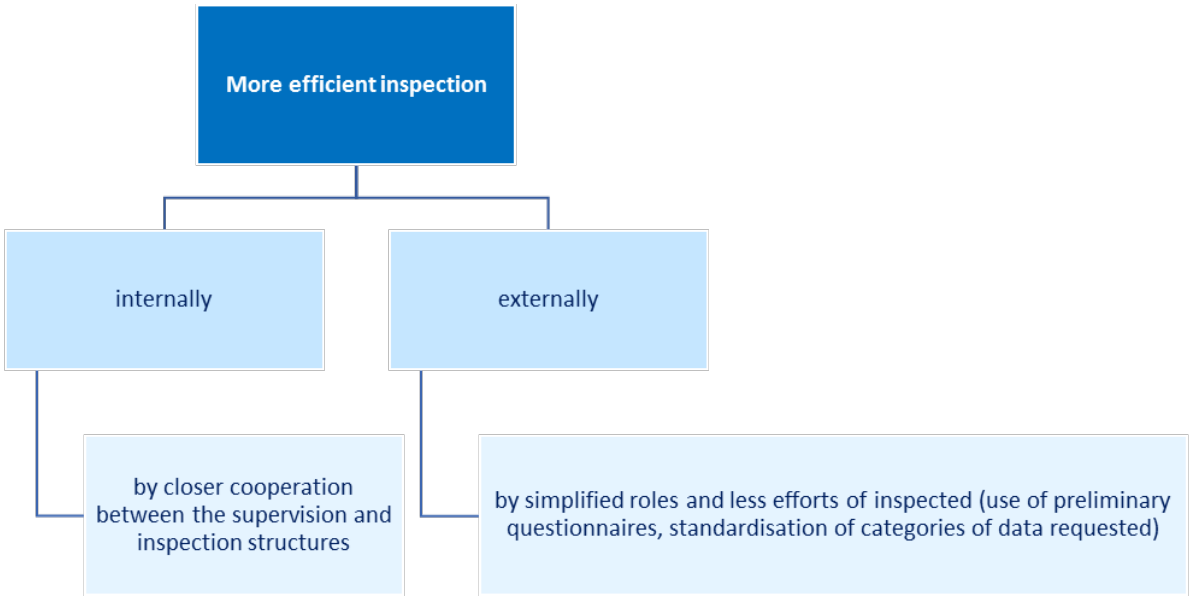
Measures planned for 2017 to strengthen supervision and inspection on the capital market

- A more consistent and regular dialogue with the market, to identify risk areas and to survey market expectations from the supervisor;
- Successful completion of the project on supervision function review;
- Reporting simplification by implementing more coherent, standardised requirements (template-based), with no additional

burdens for market entities;
• In-depth study of sectoral risk indicators and risk matrices for UCI building on the experience gained during the stress test for investment funds undertaken in 2016;
• Development of adequate analysis mechanisms (apply questionnaires targeting entities to gain better knowledge on both general and particular market phenomena);
• Further analysis of essential aspects of the supervision and inspection mechanisms, in parallel with pro-active approach;
• Ensuring flexible inspection, adapted to the FSA requirements and to the internal environment of the regulated entities; performance of corrective and preventive inspections.

The inspection activity capitalised on the experience and knowledge gained due to the participation in ESMA working groups/ESMA workshops/exchange of experience with FMA - Austria to adopt inspection models and practices of more advanced countries with regard to enforcement. To this purpose, FSA commenced a project to issue a new regulation on the regular and on-the-spot inspections, based on the FSA strategy on the implementation of risk-based supervision, and on exchange of experience with other similar competent authorities. The new inspection regulation of FSA (no. 11/2016) was finalised and entered into force on 30.12.2016. It redefined the inspection function within the Authority, providing a granual, predictable, transparent and flexible framework, with clear rights and obligations both for the Authority and for the supervised entities.

Very important steps for a more efficient inspection activity were taken in 2016, by a stronger focus on the inspection preparatory phase.



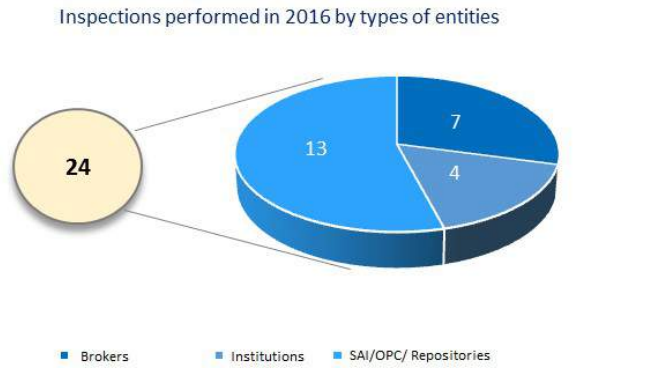
There was important progress to manage operational risks generated by the IT systems used by the regulated entities, by recruitment of an IT audit expert who is actively involved in the off-site and on-site supervision process for the entities on the capital market. Important steps were taken to implement the requirements of the FSA Rule no. 6/2015 by redefining the internal procedures framework and by developing IT general inspection questionnaires used in specific activities.

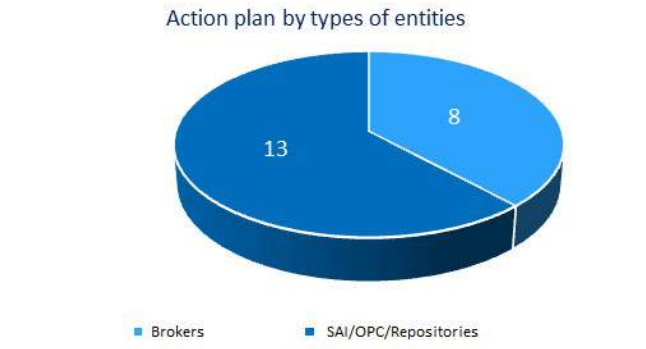
The inspection function implemented template documents to analyse the main indicators of the entities, used for the risk section of the inspection themes.

The objective was to ensure unitary analyses and indicators, as well as the automation of certain analysis processes.

The priorities of the inspection activity for 2016 were established by the annual inspection plan approved by the FSA Board. The plan development process considered various factors, among which the objective of enhanced supervision of entities included in a higher risk class.

In line with the new inspection policy of the Authority, the control themes developed by FSA targeted essential aspects of the activity of supervised entities which may generate risks at entity level or at capital market level.





Capital markets conduct supervision

Commenced activity in 2016, following the reorganisation of the Supervision and Inspection Directorate

Other objectives: IMC/AIFM, UCI/AIF
• To monitor the activity and operations undertaken by IMC/AIFM, UCI/AIF;
• To verify compliance with the legal provisions by supervised entities to ensure capital market transparency and proper investor information;
• To monitor and analyse transactions involving UCI (including FIC) assets managed by the same IMC and persons affiliated to them, as well as UCI nor belonging to the same IMC;
✓ To examine UCI investors vs. IMC ownership and affiliated entities structure;
✓ To investigate IMC transactions compared to the transactions of managed and /or affiliated entities;
✓ To compare UCI/AIF documents with the investment policy / portfolio structure / direct/indirect holdings between the UCIs managed by an IMC, other UCIs, the link between the UCI and the IMC managing them or issuing companies controlled by the same IMC or IMC management persons etc., as well as related risks;
✓ To check the implementation of the risk management policy, the best order management for prompt and fair trading using financial instruments form the UCI portfolio;
✓ To check the expenditure ceiling and structure, and the commissions and fees paid by UCI;
✓ To provide consultancy services – IMC commission/benefit/fee;
✓ Agreement between UCI assets depositary and IMC (depositary agreement, information flow methods and procedure related to the exercise of rights related to the financial instruments), depositary fee, asset dispersion by various depositaries of UCI assets managed by the same IMC etc.;
✓ To check compliance with reporting obligations – publication of funds documents/prospectus, regular reports, Unit Value of Net Assets, DICI, investor newsletters etc., and publication of advertising materials which should not mislead investors by using false advertising or comparative advertising.

FSA

Objectives

In the sector of conduct supervision

GENERAL OBJECTIVE

Improvement of quality, efficiency and coherency of the supervision activities through the implementation of pro-active measures and by shifting to a risk-based supervision system

SPECIFIC OBJECTIVES

- Identification of main vulnerabilities and issues that might require additional supervision measures
- Reconfiguration of objectives through the gradual implementation of the risk-based supervision principles, matched by redesigning the compliance component
- Enhanced supervision for those financial entities categorized as high-risk institutions

OTHER OBJECTIVES

Other objectives: brokers, market institutions
▪ To identify and analyse the types of activities actually undertaken by the entities and to adapt specific supervision methods;
▪ To check documents concluded underpinning the relationship with customers/participants, which should be drafted according to the legal provisions applicable;
▪ To check performance of duties by the representative of the internal inspection department, by the risk manager, to prevent any breach of legal provisions and of internal regulations/provisions;
▪ To check the correction/elimination of shortcomings identified by FSA inspections and the implementation of recommendations formulated;
▪ To check compliance with advertising obligations and information published on the webpage to ensure the information is accurate and complete;
▪ To check/identify shareholders (legal/natural entities) which undertake concerted actions in relation to market operators and central depositaries,
▪ To check customer assets under IF custody;
▪ To monitor margin trading operations performed by IFs,
▪ To check individual portfolio management activities undertaken by IFs,
▪ To check independent and internal audit report submitted by entities, in order to identify shortcomings indicated by them, in terms of entity compliance and behaviour;
▪ To analyse potential existing conflicts of interests between company and customers;
▪ To sample check the provisions of contracts concluded with customers (on-line margin traders), in terms of compliance;
▪ To investigate aspects related to IF, market institutions and their staff conduct, against information received from complaints, media or ex officio actions etc.;
▪ To check the implementation of recommendations provided to customers by specialist personnel and provision of investment consultancy services.

In order to achieve objectives under the new approach of *risk based supervision - RBS*, the following progress was achieved, as reflected in *procedures, working processes, functional links and exchange of information between services*, in line with the guidelines provided by the institutional reorganisation:

- Drafting the company/entity monitoring fiches, including relevant information from prospectuses/articles of incorporation, the peculiarities of each body and all relevant aspects deriving from conduct supervision activities;
- Monitoring the IMC/UCI operating expenses, taking into account that the management companies for certain UCIs charge performance fees or incentives in case the NAV register profits;
- Intensify cross-checks, and perform complex analyses on transactions with affiliated entities, direct/indirect holdings, possible intra-group transactions, conflicts of interests etc.;
- Monitoring compliance with capital requirements by an IMC which has individual investment portfolio management in its object of activity and manages individual investment accounts based on special mandate contracts, enabling customers to choose their custodian, the assets and the types of financial instruments they intend to invest in, as well as the investment limits for each type of assets or issuer of financial instruments;
- Analysis of RCCI reports /investigation plan for 2016, of shortcomings identified and of remedial measures;
- Checking customer classification performed by IFs, by specific categories, according to customer profile, based on the evaluations performed;
- Monitoring customer portfolio management activity and yield achieved for customers;
- Analysing loan granting conditions so as customers may perform margin transactions;
- Analysis of contracts concluded with other brokers, including contracts concluded with foreign investment companies and activities provided for own customers;

- Monitoring aspects related to conflict of interests which were not declared and registered with the specific register;
- Regular check of entity compliance with the measures imposed by the authority following the inspection (request for documents indicating company compliance with the measures imposed).

Other relevant projects and activities planned for 2017 or already ongoing, to continue and consolidate those implemented in 2016

World Bank Project	**Objectives:** - To strengthen FSA supervision capacity - To align with European practices - To create a conduct risk identification and measurement model - To develop supervision manuals for IFs and IMCs

The improvement of quality, efficiency and coherence of off-site supervision of entities supervised in terms of conduct entails:

- Alignment with Community experience, establishment of guidelines on: off-site supervision instruments, methodologies, transparency and accountability;
- Implementation of internal procedure to include the type of necessary/intended information to establish conduct compliance by subjects;
- Standardisation of submission of documents requested from supervised entities;
- Establishment of flows – supervision process flowchart detailing each stage of the entity conduct supervision activity in the working process (supervision manual);
- Checking the operational dimension of the activity of supervised entities, by monitoring key elements of entity activity.

CAT Project	**Goal:** to perform an entity compliance evaluation exercise for the supervised entities (IF/IMC) to support FSA supervision and inspection activities, by defining IMC and IF assessment/self-assessment questionnaires

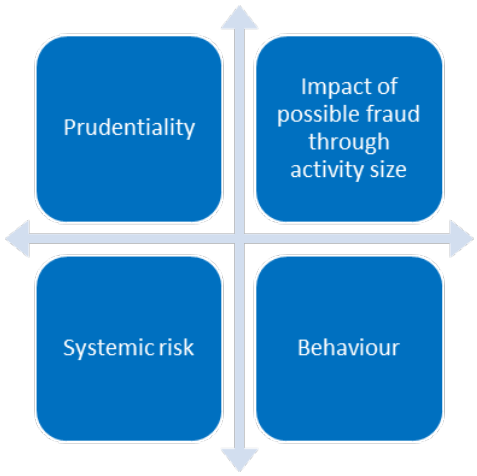
- This supervision instrument will enable FSA to get an overall picture of the market and to identify from early stages the vulnerabilities of the supervised entities (IF and IMC) and to impose early preventive measures to limit such vulnerabilities. The exercise will provide knowledge on the level of compliance of activities undertaken by supervised entities with the requirements provided by applicable legislation, based on sets of key questions defined by FSA;
- The evaluation exercise is an internal snapshot enabling entities to re-evaluate their activity from a compliance perspective.

Prudential supervision of investment firms

The activity focused on:	
	• Standardisation of reporting flows of supervised entities (format, channel, validations);
	• Continuing improvement of the supervision system: the FSA Decision no. 1975/10.10.2016 approved the commencement of the 1-year project "Technical assistance to strengthen the capital market function" implemented in cooperation with the World Bank. One of the main objectives of the project is to adopt, to a larger extent, risk-based supervision. At Supervision and Inspection Directorate level, the project involves a revision of procedures used to classify IFs and IMCs by risk classes, and based on these evaluations, to optimise supervision resources allocation;
	• Discussions with market representatives on the enforcement of legislation in force on own funds and capital adequacy requirements;
	• Continuing updating of reporting templates for own funds and capital adequacy requirements;
	• Active involvement in the process of amending the European legislation on prudential requirements;
	• Provide EBA with data on how investment firms apply prudential requirements to enable a clear picture of the size and complexity of the investment firms activities;
	• Follow-up and measures to restore financial balance at IFs level, where applicable.

The **classification of investment firms by risk classes** was performed quartely, using the risk matrix developed by FSA.

Investment firms were allocated risk classes ("Low", "Moderate", "High" or "Very high"), according to the scores obtained. Detailed analyses were performed to identify risk causes and determine possible measures to remedy problem situations identified for IFs included in a high risk class.



Prudential supervision of undertakings for collective investment

The FSA Action Plan for 2016 and the strategic objectives of the Autority for 2016-2018 place special focus on increasing consumer trust in non-bank markets and financial instruments, and on market stability and healthy operation, including by strengthening the efficiency of the supervision activity.

Under this context, FSA activity in the field of prudential supervision of undertakings for collective investment in Romania focused in 2016 on 4 main action lines:

1. Development of templates for unitary electronic reporting and of supervision instruments

2. Development of advanced analysis based on the standard deviation of the evolution of daily yields of VUAN

3. Initiation of an exercise to determine the impact of the results of the UK referendum on the investment funds portfolios in Romania

4. Performance of a stress test on investment funds in Romania

In order to support optimal implementation, with results substantiated by an efficient approach and robust and flexible information processing, as submitted by supervised entities based on regular reporting requirements, the following elements were considered and are still under implementation:

- Development of a unitary electronic reporting template for UCI;
- Development of a risk matrix for investment management companies;
- Development of Unit Value of Net Asset benchmarking methods for funds under the same category and identification of possible inconsistent behaviours.

The approach on the initiation and implementation of a new reporting template for UCI aimed at improving the quality of information included in it, accompanied by reducing the reporting efforts of credit institutions acting as depositaries both for investment funds assets (UCI), and for pension funds assets (Pillar II and Pillar III) by using the same financial instruments reporting codes, where the activities of the two sectors regulating activities overlap. The implementation of this reporting template will enable the development of a set of indicators signalling extreme fluctuations, and anomalies in yield evolution.

Development of unitary electronic reporting templates and of supervision instruments for IMCs and investment funds activities

Development of an advanced analysis based on the standard deviation of of the evolution of daily yields of Unit Value of Net Asssets

Current activities also focused on the development of an advanced analysis based on the standard deviation of the evolution of daily yields of Unit Value of Net Assets. This was initiated for the collective investment funds and it is a first step in the shift to a new UCI supervision model, according to systems used by developed countries.

Initiation of an exercise to determine the immediate impact of the UK referendum result

Due to the high volatility of financial markets generated by the result of the UK referendum from 23 June 2016 on the decision to exit the European Union, an exercise to determine the impact of this decision at UCITS level was initiated, targeting those UCITS whose portfolios represent:

- Financial instruments exposure, other than fixed-income instruments;
- Financial derivatives underlying currency, especially related to pound and euro.

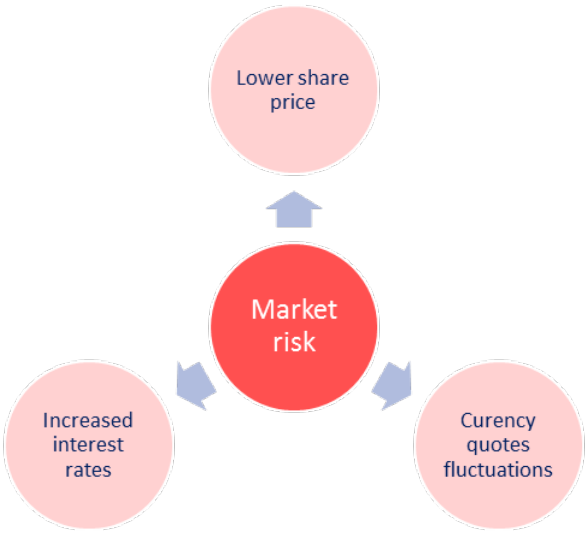
The role of the exercise was to raise awareness among investment fund managers on the importance of risk management activities and on the prudential requirements applicable. The analysis findings did not identify situations that would require additional liquidity management measures to be imposed by FSA so as UCITS may settle redemption requests.

Performance of a stress test on investment funds in Romania

The stress tests performed on the collective investment funds (UCITS) and on non-UCITS aimed at investigating possible existing vulnerabilities for these entities, both at individual (micro-prudential) level and at sector level.

The activities also considered the need to improve the managers capacity to manage potential exceptional situations in terms of investment risk and liquidity risk.

The stress test exercise performed for UCITS and non-UCITS was not a **"pass or fail"** test, but it aimed at highlighting some of the effects of important risks these entities might be facing in situations of turbulence on the financial markets.



The objectives of the test under extreme conditions were:

1. To analyse the asset portfolio of each and all UCITS and NON-UCITS included in the exercise with regard to the structure by asset category and possible use of financial derivatives for risk protection purposes;
2. To evaluate the amplitude of shock waves caused by risk sources on participating UCITS and NON-UCITS, and aggregated at sector level; to identify potential vulnerabilities;
3. To improve the understanding of the risk profile of participating UCITS and NON-UCITS;
4. To improve procedures on liquidity planning and exposure management and mitigation in crisis situations of participating UCITS and NON-UCITS managers.

The selection process to identify the participating UCITSs considered the investments strategy, the asset structure, the portfolio specificity, the number and structure of investors and the market share, based on total assets.

The exercise did not include Fondul Proprietatea and the 5 financial investment companies (non-UCITS) traded on a regulated market, as they do not provide the option of redemption of units upon investor request, and are not subject to liquidity risks.

FSA objectives assumed following the stress test implementation:
• To organise discussions between FSA and participating IMCs on individual results, where applicable
• To develop a guide on risk management and regular internal implementation of stress test and communication of their results to FSA, at least once a year
• Development by FSA of a bond market analysis on liquidity and sensitivity to exchange rates changes (at least for the most important bond emissions investment funds supervised by FSA are exposed to)
• Further performance by FSA of systemic liquidity risk for the investment funds supervised
• To improve investment fund prudential supervision processes by a review of data requirements and reporting templates, based on the experience gained after this exercise
• To repeat the stress test after 2 years (2018)

Supervision of issuers

In light of transparency requirements, the supervision of issuers whose securities are admitted for trading on the capital market involved two distinct levels of activities:

The main objectives transposed into actual activities were:

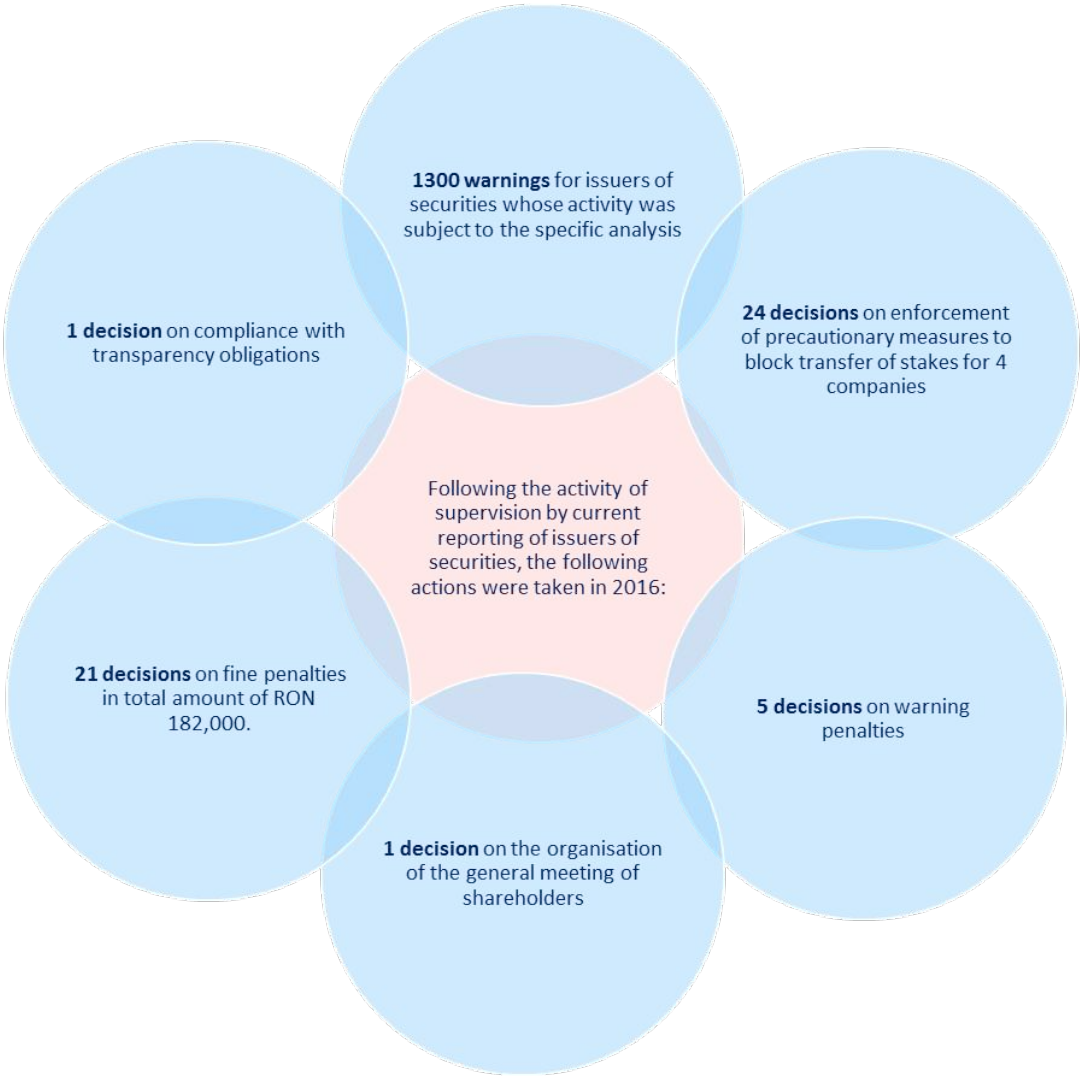
- Monitoring the activity and operations undertaken in relation to and by issuers of securities in light of curent and regular reporting obligations and of the rights arising from the capacity as shareholders, in order to ensure full, accurate and timely information of shareholders and of potential investors and to protect them, by analysing events occured in society, including from the perspective of the need to suspend/introduce financial instruments from/for trading;
- Monitoring/supervision of compliance with holding limits, in case of financial investment companies (FICs) for which the law provides such limits;
- Checking compliance of financial statements with International Financial Reporting Standards and of regular reports with legal requirements;
- Monitoring the reporting of transactions with stakeholders and the activity of statutory auditors in relation with issuers on the regulated market;
- Implementation of the ESMA Guidelines on enforcement of financial information;
- FSA integration within the projects on the European Electronic Access Point (EEAP) and European single electronic (reporting) format (ESEF).

Current reporting obligations

In its activity of monitoring current reporting, FSA issued warning for analysed issuers , and the cases of non-compliance with the legal provisions in force were tackled and referred to those in charge, including by enforcement of administrative sanctions.

The monitoring activity focused on the compliance with legal provisions, especially in relation to drafting current reports on convocations and decisions adopted by general shareholders meetings, in terms of dissemination of information by publication in the Official Journal and on the websites of the issuers.

The monitoring activity also verified cases which imposed suspension/introduction of financial instruments from/for trading, to enable accurate information of investors and adoption of necessary measures.



The monitoring of companies which initiated/implemented procedures pursuant to the provisions of Law no. 151/ 2014, led to the following actions in 2016:

- **7 decisions on fine penalties** for those responsible for failure to comply with the obligations imposed by an individual act of the authority and related to the provisions of Law no.151/2014;

- **5 decisions** imposing the management boards/sole managers of companies which adopted the decision on admitting to trading on an alternative trading system, which decision was declared null and void, the obligation to request the

Trade Register Offices to appoint an independent licensed professional to draft the evaluation report to determine the share price, while the shareholders of those companies had the right to withdraw;

- **17 decisions** imposing that certain evaluation reports should be reviewed/developed, considering the expert opinion expressed by ANEVAR on the initial evaluation reports, expert opinion requested by FSA due to notifications.

Analysis of concerted activities of FICs

Another main activity is the analysis/investigation of compliance with the threshold in the share capital of financial investment companies (FICs), pursuant to the provisions of Art. 286[1] of Law no. 297/2004.

FSA activities involve a complex mechanism to check compliance with the threshold in the share capital of financial investment companies. Very often, this mechanism involved cross-border elements, which entailed both development of contacts and exchange of information with competent authorities from other states, and knowledge of the applicable legal framework for operations in exotic jurisdictions. At national level, this entailed cooperation with other public authorities to obtain relevant information and data for the investigation process (DIICOT, ANAF, General Inspectorate for Immigration, ONRC etc.).

The implications of the results of activities undertaken by FSA in this process are especially important with a view to maintain a fair environment for the exercise of shareholders rights in the general meetings of shareholders, according to the thresholds expressly regulated, given that general meetings of FICs vote aspects which will impact on a large number of investors (more than 5 million shareholders for each FIC), on the one hand, and on the stock market, on the other hand.

The authority intervention means, on the one hand, an immediate limitation of the voting rights of those shareholders who exceeded such thresholds as provided by legislation, for that general meetings subject to the analysis, and on the other hand, imposing the obligation to sell all holdings exceeding the 5% threshold within the legal deadline, and follow-up of the measures.

Periodic reporting obligations

FSA checked compliance with legal requirements on periodic reporting and applied warning and sanctions for the non-compliance cases identified.

Unirea Shopping Center was issued a warning for failure to comply with the obligation to make available for the public and submit the system operator and FSA an annual report, within 4 months from the end of the financial exercise.

Intercontinental Romania SA was sanctioned for several irregularities found with regard to failure to submit as a matter of urgency the minutes of the MB meeting whereby its was decided not to apply the request of two shareholders to draft an additional audit report, according to Art. 259 of Law 297/2004.

Decisions were issued for **30 issuers** ordering the **MB** to take all necessary steps to audit the financial statements for 2015.

Corporate operations and public offerings approved by FSA in 2016

• **one prospectus** for admission to trading on the regulated market managed by BVB shares issued by Societatea de Construcții Napoca SA, unprecedented by offering of shares for sale;
• **14 prospectuses for primary offering** in total amount of Lei 136,770,960;
• **5 documents related to takeover bids** in total amount of Lei 539,203,910;
• **3 documents related to mandatory takeover bids** in total amount of Lei 21,990,654;
• **2 documents related to voluntary takeover bid** in total amount of Lei 337,477,672;
• **Secondary offering of shares** issued by OMV PETROM and GDRs owned by Fondul Proprietatea whose value reached Lei 682,342,730 (shares sold) and USD 19,190,925 (GDRs sold). The UK Authority was notified on the approval by FSA of the prospectus for secondary share listing of OMV PETROM SA on the London Stock Exchange, by issuance of GDR, based on existing support shares;
• **3 shareholder withdrawal notifications**, drafted by shareholders who feel under one of the two requirements imposed by the provisions of Article 206 of Law no. 297/2004. Following the completion of the procedure provided by Art. 206 of Law no. 297/2004, one company was withdrawn from trading and other 8 companies were withdrawn from trading on the alternative trading system managed by BVB/SIBEX due to initiation of bankruptcy proceedings/completion of merger or following shareholders' decision – after the company redeemed the shared held by shareholders who did not agree with this decision.

The end of the year was marked by the **initial secondary offering for sale** for admission to trading on the regulated market managed by BVB of the shares issued by MED LIFE SA – the private company, an offering in amount of Lei 228,182,532 which was successfully finalised, and the shares issued was admitted for trading.

For shareholder failure to comply with the obligation provided by Art. 203 of Law no. 297/2004, in 2016, FSA issued a penalty in amount of Lei 230,000.

According to the domestic legal provisions, as harmonised with the European Directive, as a host country, FSA receives from similar authorities of EU member states the prospectuses developed by them, the certificate and the summary of the prospectuses in Romanian; according to legal provisions, FSA shall not initiate a prospectus approval procedure. Therefore, in 2016, FSA was notified on the approval of 20 prospectuses and 17 supplements/amendments and, based on the prospectuses notified and of the final terms submitted, 124 issuances of structured products were registered with FSA to be admitted for trading with BVB, of which 92 were issued by ERSTE GROUP BANK AG AUSTRIA and 32 were issued by RAIFFEISEN CENTROBANK AG.

SSIF BRK FINANCIAL GROUP SA developed a new prospectus related to issuance of structured products, therefore 28 issuances of structured products were registered for this issuer.

The registration of issuance of securities or of amendments to characteristics of existing issuers on record with FSA is performed by the issuance of the Securities Registration Certificate (SRC). Consequently, 214 Securities Registration Certificates were issued in 2016.

Supervision of trading activity

In 2016, the European Securities and Markets Authority continues the implementation of the three projects for the enforcement of MiFID II and EMIR, commenced in 2015:

1. FIRDS – Financial Instruments Reference Data System

The goal of the project is to build a system to enable ESMA to collect reference data on behalf of the competent authorities (e.g. ISIN, trading start date, issuer LEI etc.) and trading volumes directly from each trading venue (regulated market, MTF, OTF) and independent operators.

In 2016, ESMA continues with the development of this project, and the competent authorities should finalise local applications in 2017.

2. TRACE - Single Access Point to TRs data

The goal of the project is to provide a single access point (hub) for transactions data stored by the central trade repositories (TRs) according to EMIR.

The project was finalised in August 2016 at FSA level. Access to data is provided and currently the goal is to provide optimal data visualisation. In 2017 ESMA will commence phase two of this project, namely the development of a module for ad-hoc database interrogations.

3. TREM – MiFIR Transaction Reports Exchange Mechanism

Under this project, FSA will collect trading reports from investment firms, trading venues and will ensure data submission to other competent authorities according to MiFIR rules. Trade reporting shall use a common technical format at EU level and shall be defined by ESMA (XML messages according to ISO 20022).

FSA commenced project implementation at the end of 2016; project specifications will be finalised during the first quarter of 2017, followed by their implementation.

These three projects will lead to significant improvement of current systems. FIRDS and TREM should become operational in September 2017.

In 2016 a project to update the internal electronic supervision system was initiated (Client ARENA app), according to current standards, considering the legal developments (MiFID II, EMIR, MAD). Similar software solutions used for electronic supervision by other competent authorities and/or market operators were analysed, and a draft version of technical specifications was developed, to be implemented in the forthcoming period.

A distinct activity undertaken by FSA was related to the enforcements performed through capital market mechanisms, finalised by special promissory sale operations. This activity involved the analysis and monitoring of stock seizure/forfeiture/freezing, following information received by the Central Depository /Bailiffs, including on those owned by the Romanian State through AAAS, information of AAAS on seizure/forfeiture/freezing of stock owned by the Romanian State through AAAS.

Supervision activity in the field of market abuse

The main challenge of 2016, with an important role in ensuring market integrity and investor protection, was the direct implementation on Member States territory of the **EU Regulation 596/2014 on market abuse and of the delegated regulations issued for its enforcement**, starting with 3 July 2016.

MAR introduces new behaviour and reporting obligations, on the one hand for issuers of financial instruments and, on the other hand, for market participants and investors. At the same time, MAR extends the scope of market abuse to include a wide range of financial instruments, and FSA placed a special focus on issuers of financial instruments traded on alternative trading systems, as a result of the transfer from the Rasdaq section to the unlisted securities market.

In this context, the main objective of issuers for 2016 was to undertake all necessary operational steps to comply with the new behaviours and reporting obligations imposed by MAR, especially as regards drafting and updating the lists of persons having access to privileged information according to the new standardised templates at European level, reporting of transactions performed by management upon reaching the relevant notification threshold, closed periods and restrictions on trading during such periods, implementation of redemption programmes and stabilisation measures.

In order to support issuers to become accustomed with the new legal requirements and aware of their central role in the relationship with investors, FSA undertook in 2016 various activities to inform issuers on the new European legal framework, highlighting the need to evaluate and adapt their operational capacity to the new requirements on market abuse.

Also, through its website and during the conferences/workshops organised, FSA informed market participants and investors on the implications of the new European legal framework, and on the higher financial penalties enforced for breach of market abuse provisions. In order to facilitate access to the provisions of the new European legal framework, a market abuse section was added on the FSA website, hosting the main specific regulations, the necessary information to comply with the reporting obligations established by MAR, and the reporting channels for actual or potential infringements of MAR.

The new European legal framework also included two European Directives, **Directive 2014/57/EU** and **Directive 2015/2392/UE**, the former **on criminal sanctions for market abuse**, and the latter having an important role for **setting efficient reporting mechanisms to competent authorities of actual or potential infringements of MAR**.

Once the provisions of the two directives were transposed in the domestic legislation **through Law no.24/2017 on issuers of financial instruments and market operations**, the national legal framework completed the set of laws applicable to market abuse matters. Law no. 24 has a crucial role in defining the FSA duties in the field of market abuse, applicable penalties and their limits, and maintains the intentional market abuse acts in the field of criminal matters. The main novelty in terms of criminal penalties introduced by Law no. 24/2017 is represented by the inclusion of attempt to manipulate markets or use privileged information under the scope of criminal offences.

In 2016, FSA performed market abuse specific investigations with the aim, among others, to clarify to what extent the behaviour of issuers, expressed by decision-makers on the classification of information as privileged information and the moment of its publication, might have send false signals or mislead investors.

However, the recognition by the law-maker of the exclusive role of the issuers in the classification and publication of privileged information directly related to them does not preclude the Authority from exercising its specific duties on the investigation of information veracity according to the actual facts and of the moment when the issuer publishes the information.

Also, the market abuse investigation activity targeted the investment behaviour of the management of the issuer and of those close to them, so as to identify any possible links between the moment of trading and the existence of privileged information which was not disclosed fot the public.

Under the same context, with the enforcement of the new European legal framework on market abuse, verifications were conducted to check compliance with the trading ban during closed periods by the issuers management. As this

was novelty imposing administrative financial penalties, except for acts falling under the scope of manipulation or use/disclosure of privileged information, FSA played a pro-active role in the relationship with issuers, by providing individual information, also on the applicable bans.

Another topic of FSA investigations was the drafting of financial statements, whose publication generated variations of the price of financial instruments; the main goal of the investigations was to appraise compliance with the accounting principles and regulations. The professional rationale adopted by issuers in recording certain economic operations with the bookkeeping system (generated by events with impact on the financial situation of the issuer) was evaluated by FSA both in terms of compliance with the International Financial Reporting Standards, and with the decisions adopted by the issuer's statutory bodies.

Another type of investigation focused on the identification of specific manipulative behaviours displayed both by investors and by third parties, whose involvement highlighted the use of complex mechanisms designed to dissimulate the existing situation, namely the dependence of the parties involved in trading. The analyses found that those transactions were not based on a legitimate investment/divestment intention, and there were suspicions of investor misleading acts with regard to financial instruments demand and supply.

Market abuse prevention, monitoring and investigation includes daily monitoring of current and regular reports submitted by issuers to appraise their compliance with the legal provisions of publication of privileged information; verification of suspicious trading activities, based both on ex officio actions and on suspicious transaction reports/other complaints, to identify market manipulation typologies; analysis of information, news, opinions and analyses on listed issuers, to identify possible cases of dissemination of false and misleading information; analyses of transaction reports drafted by persons with access to privileged information, in relation to sensitive information on issuers and insider lists provided by them, to identify possible market abuses.

The prevention activity includes 500 written notifications submitted to issuers of securities to highlight the need to adopt measures to appraise the operational capacity of the company so as to comply with their legal obligations.

As regards the analyses performed on market abuse, 28 investigations were conducted in 2016, covering a wide range of mechanisms to identify possible market abuse indicators such as: rate of transactions registering financial instruments price variations of the total transactions performed; change (or not) of the beneficiary of a financial instrument following the transactions performed; concentration, within a limited period of time, of order or transactions leading to price variations which send the message that there is genuine interest for those financial instruments; possible unauthorised disclosure of use of privileged information.

Given that in 3 cases the investigation results raised suspicions on market abuses, prosecution bodies were notified, with due care for compliance with the "*non bis in idem*"[1] principle. Aditionally to the suspicions related to criminal offences, the investigations revealed misdemeanours, for which financial penalties were proposed and enforced.

As mentioned earlier, 2016 was marked by the enforcement of the new European legislation on market abuse. Under this context, one of the legal concepts which required in-depth analysis was the "*closed period*", both in light of exceptions from strict interpretation, and of the diversity of subjects targeted. Thus, before the announcement of an interim financial report or of an end-of-year financial report an issuer must publish, there were verifications with all issuers whose shares are traded on the capital market (regulated and ATS

) so as to identify any potential infringements of Art. 19 (11) of the Regulation (EU) no. 596/2014 on market abuse. Based on such verifications, 2 administrative penalties were proposed and enforced by the end of 2016 for failure to comply with the provisions of Art. 19 (11) of the Regulation (EU) no. 596/2014; there are other pending cases of suspicions on failure to comply with such provisions, currently under investigation.

As party to the international cooperation agreements, according to the powers vested by the national legislation, in 2016 FSA provided specialist support to one EU competent authority, using the assistance mechanism for market abuse investigations by hearing the persons concerned at the headquarters of the Authority.

[1] Latin expression meaning that no legal action can be instituted twice for the same cause of action against the same person.

In 2016, FSA continued cooperation with prosecution bodies and the judiciary and provided specialist support for the investigation of possible market abuse offences, and relevant data or information for cases under investigation. Under the same context, FSE representatives participated in interactive seminars for magistrates, to ensure better understanding of the structure and operations related to the non-banking financial system, necessary for them especially in administrative cases, civil disputes or criminal cases.

In 2016, FSA continued to liaise with representatives of the Directorate for the Investigation of Organised Crime and Terrorism to evaluate the FSA capacity to exercise, pursuant to the national legislation, the investigation powers provided by MAR, and to evaluate the practical consequences of the enforcement of the new legal framework on market abuse at national level.

In order to ensure market integrity and a high level of convergence in supervision, in line with the objectives of the European Securities and Markets Authority, FSA contributed to the development of technical standards for MAR implementation, of the guidelines and recommendations issued in view of MAR and BMR Regulation enforcement and of Q&A documents tackling practical aspects highlighted by the implementation of the European legal framework.

INSURANCE MARKET

Implementation of the Solvency II regime

Starting with 1 January 2016, the European Union applied a new risk-based supervision framework for the insurance market - Solvency II. As a result, the insurance undertakings in Romania went through a process of alignment with the new rules and standards, in the years before 2016 and also in 2016.

At European level, Solvency II led to a paradigm shift in the risk culture of the companies and supervisory authorities. Companies understand the risks better and manage them more effectively and this practice is continuous. This is why, from the first year of implementation, we see a better governance and risk management system, even if the process has just started. Improved reporting allows supervisors to anticipate potential problems and respond more promptly by implementing early warning mechanisms based on risk assessment. The key element is to encourage good governance and risk management, which will implicitly enhance protection for the clients of insurance products.

Solvency II Regime is structured on 3 pillars:

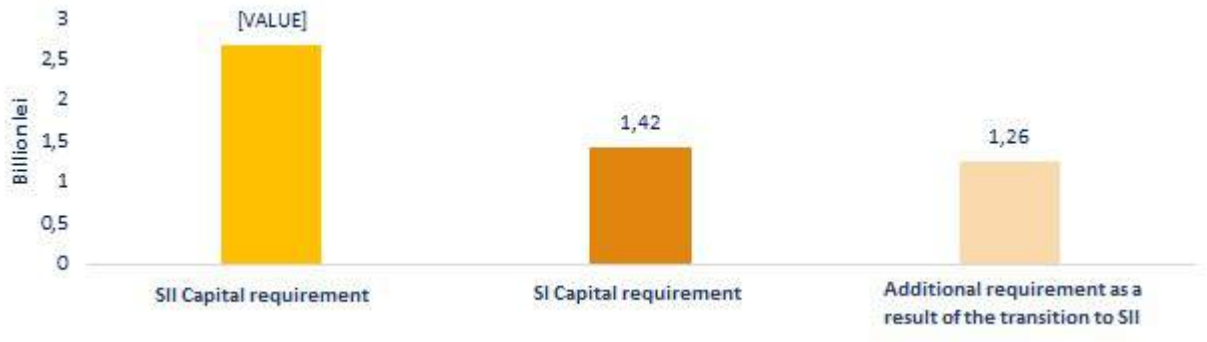
Pillar 1	Pillar 2	Pillar 3
Quantitative requirements (Assessment)	**Governance and supervision**	**Reporting and transparency**
▪ Assets and non-technical liabilities ▪ Technical provisions ▪ Prudent Person Principle ▪ Capital requirements: - Solvency Capital Requirement: SCR - Minimum Capital Requirement: MCR ▪ Own funds: classification and eligibility	▪ Governance system ▪ Internal control system ▪ Risk management system ▪ Own Risk and Solvency Assessment (ORSA); ▪ Supervision process carried out by the national authority	• Insurance undertakings must publish details on the risks they face, capital adequacy and risk management (*Solvency and Financial Condition Report (SFCR)*). Transparency aims at imposing a better discipline on the market. Additionally, insurance undertakings provide improved regular reporting to supervisors only.

Statistics on the transition to Solvency II

Being a prudential risk-based regime, Solvency II uses specific models to assess assets, liabilities and the need of capital for the insurance business.

Their application leads to significant differences compared to the values calculated according to the statutory regulations (Solvency I regime), in particular in regard to technical provisions and prudential financial requirements (capital requirements).

Additional capitalization requirement as a result of the transition to SII

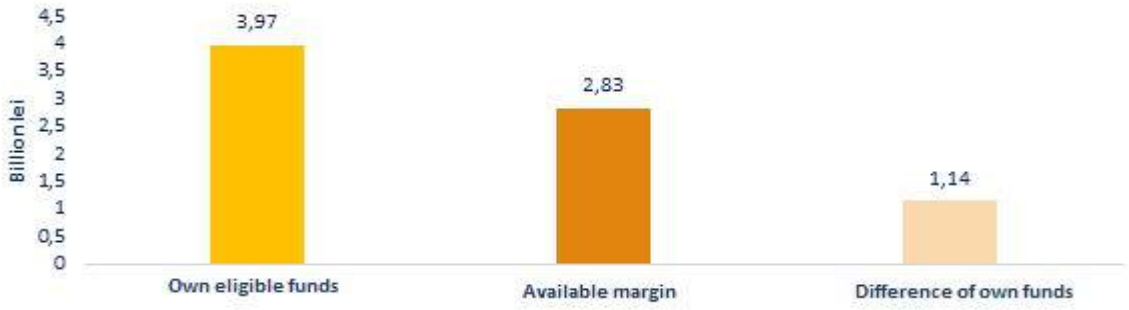


Under Solvency II, the capital requirements for insurance undertakings are higher, being based on the risks assumed by them (both in terms of investment and the insurance contracts underwritten by them).

A comparative analysis between the Solvency II and Solvency I capital requirements for the Romanian insurance sector indicates an additional capitalization requirement following the transition to the new prudential regime of Lei 1.26 billion at market level, which represents 16% of the volume of gross written premiums in 2015.

The additional funding requirement which appeared as a result of the transition process to the Solvency II regime is partly covered by the additional funds gained as a result of the change in the assessment method of assets and reserves (especially in the case of life insurance products). Thus, on January 1st, 2016 ("Day 1" under the new prudential regime) the insurance undertakings had their own funds eligible to cover the capital requirements, Lei 1,14 billion (about 40%) higher compared to the solvency margin available at 31 December 2015 under the previous prudential regime.

Additional capitalization as a result of the transition to SII



In 2016 the value of both assets and liabilities of the insurance undertakings (measured according to the Solvency II regime principles) increased compared to the values registered on Day 1 (total assets of insurance undertakings increased by 15% and debts by 14%) leading to an increase of about 8% in the Solvency Capital Requirement (SCR)

With regard to the Minimum Capital Requirement, which, together with the entry into force of the Solvency II regime, replaces the requirement for the Safety Fund, we notice an 8% raise on 31.12.2016 as compared to Day 1.

At the same time, the own funds eligible to cover the Solvency Capital Requirement is 40% higher at the end of the 4th quarter of 2016 compared to Day 1.

Implementing the risk-based supervision

As mentioned above, improved reporting allows supervisors to anticipate potential problems and react more promptly by implementing early warning mechanisms based on risk assessment. Thus, in the first half of 2016, the internal supervisory and control procedure was revised and a new procedure was developed for the classification of insurance undertakings in terms of risk-based supervision. The purpose of the latter was to define the methodology for assessing and classifying insurance undertakings according to their risks and their impact on the insurance market.

Taking into account the characteristics and level of development of the insurance market in Romania, as well as the experience of other supervisory authorities, the following indicators have been taken into account for the impact and risk assessment of companies:

- **For impact assessment**
  - Market share held by insurance undertakings in the total market, as well as relevant segments of the insurance market;

- **For risk assessment**

- Volume of gross as well as net reinsurance activity;
- Performance of the activity and exposure to certain segments of activity or other insurance markets in Member States / third countries, including reinsurance activity;
- The value of the assets held in relation to the technical obligations;
- Indicators on the solvency and liquidity of the company

In order to classify companies in supervisory categories based on impact and risk partial scoring, the following matrix is used:

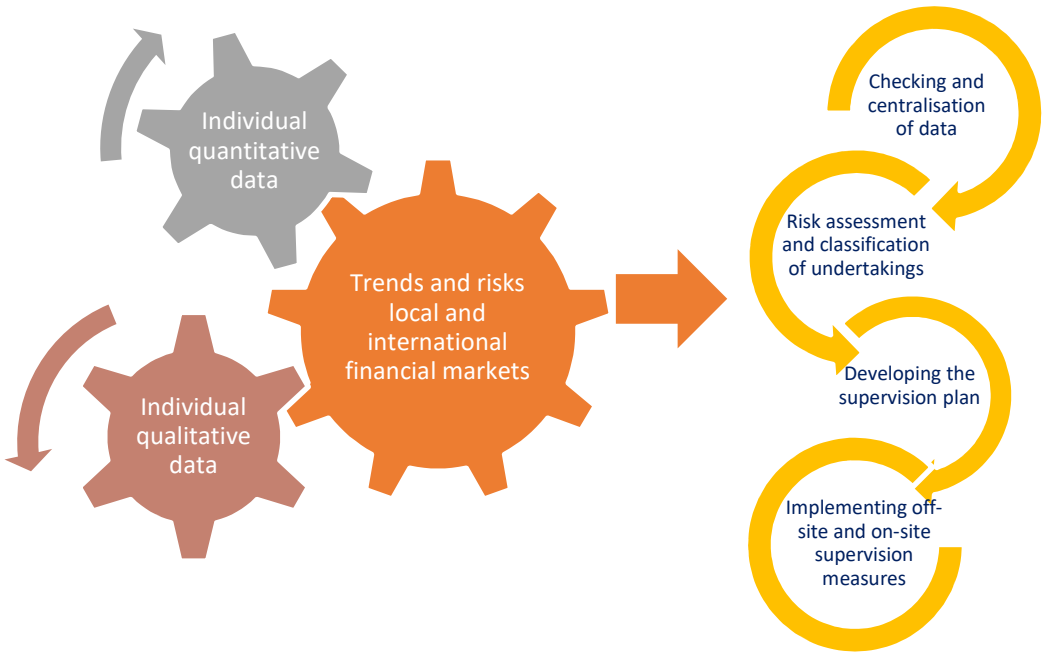
RISK	Insignificant Impact	Low impact	High impact	Significant impact
Low	1	1	2	3
Medium low	1	2	2	3
Medium high	2	2	3	4
High	3	3	4	4

Thus, by using this classification on the 2 dimensions and according to the results of the assessment process, insurance undertakings are classified in **4 supervision categories**:

- Category 1 – basic supervision;
- Category 2 – standard supervision;
- Category 3 – increased supervision;
- Category 4 – intense supervision.

Depending on the category determined on the basis of the 2 dimensions, a supervisory plan is developed for each insurance undertaking, the supervisory actions and the measures imposed on the companies being different according to the category they are assigned to. 2016 was a transition year in terms of implementation of risk-based supervision.

"Off-site" and "on-site" supervision of insurance undertakings



The supervision plan is developed annually and depending on the risk assessment and the classification of the insurance undertakings on-site and off-site supervision measures are established. However, the supervision process is continuous. Thus, depending on the analysis of the information received during the implementation period of the supervision plan, the plan may change if the risk profile of the company changes.

Analysis of the qualitative data reporting made by insurers under the Solvency II regime

ORSA (Own risk and solvency assessment)
ORSA is the key element of the second pillar of Solvency II regime, representing the totality of the processes and procedures developed by an insurance undertaking in order to identify, assess, monitor, manage and report the short or long-term risks that it faces or may face, and to determine the need of solvency capital.
The carried-out analyses have taken into account at least the following:

- Evaluating the company strategy and defining its risk appetite, together with the quantitative and qualitative risk tolerances and their limits;
- Risk assessment;
- Comparing the risk profile with the assumptions underlying the solvency requirement calculation model;
- Capital projections and explanation of the relationship between risk tolerance and the quantity and quality of capital, including the existence of actuarial opinion and management actions;
- Analysis of the measures presented for situations in which the risk profile undergoes changes due to changes in the economic, operational or business strategy
- Analysis of the stress tests used by each insurance undertaking in terms of hypotheses and scenarios presented in accordance with the individual risk profile

Risk management report
These reports have been analysed in conjunction with the ORSA reports, in order to make sure that insurance undertakings have established effective and effective risk management systems as an important tool in the management decision-making process.

Internal control report
In these analyses the insurance undertakings highlighted the general control framework, the responsibilities of the compliance function, the existence of reporting procedures at all levels, as well as the existence of administrative and accounting procedures.

Internal audit report

The analysis of the internal audit reports submitted by insurance undertakings monitored whether the internal audit function is objective and independent of the operational functions and whether this function carries out effectively the assessment of adequacy and functionality of the internal control system and other governance system elements.

Analysis of the quantitative data reporting made by insurers

Monthly / quarterly / half-yearly / yearly reports made by insurance undertakings according to the legislation in force

In the carried-out analyses at least the following procedures were performed:

- Validation and verification of correlations related to the received reports and eliminating errors or inconsistencies by requesting corrective situations
- Continuous monitoring of prudential financial indicators of insurance undertakings and reviewing the classification of the undertaking as well as modifying the individual supervision plan in case of significant deterioration of prudential indicators

Performing analytical procedures based on quantitative data received, in order to knowing and continuously verify the financial soundness of the supervised insurance undertakings.

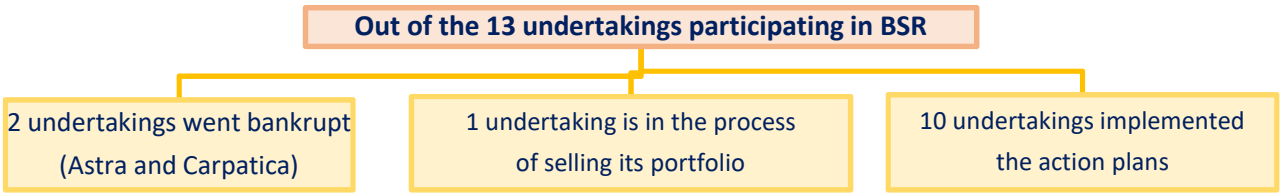
Based on the analysis of qualitative and quantitative data, and taking into account the current trends and risks of local and international markets, an "off-site" and "on-site" supervision plan was developed.

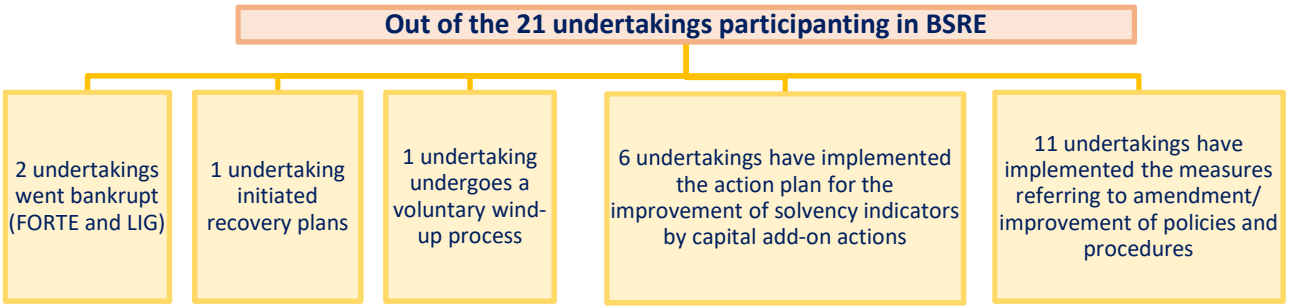
Types of "off-site" activities carried out based on the available data are:	**Regular interviews with people holding key positions in the insurance undertakings**
	Analysis of the company's governance system and strategy
	Analysis of the ORSA and the risk profile
	Analysis of the investment policies
	Analysis of the adequacy level of technical provisions policies
	Analysis of the own funds quality

Monitoring the BSR and BSRE action plan

After the BSR and BSRE exercises, finalised on 15 July 2015 and 18 November 2015 with the publication of FSA reports, depending on the classification according to prudential provisions in force (Solvency I and Solvency II), the participating insurance undertakings submitted action plans to remedy various discrepancies identified during the exercise. These action plans were analysed and submitted for the approval of the FSA Council.

The monitoring of the plans is carried out by analysing the reports submitted by undertakings on the pre-established dates at the end of each exercise.





OTHER OFF-SITE ACTIVITIES IN 2016	In addition to off-site activities, on-site inspection missions were carried out to undertakings which showed significant risks: -Unannounced controls concerning the investigation of the claims files, the way in which the technical provisions reserves are set and the claims related to the car insurance activity, which were finalized with recovery measures and / or sanctions, as the case may be. -Unannounced inspection to check the underwriting activity and to evaluate the reserves technical provisions set up by the company, which was finalized with fines granted to the company and to some members of the board -As a result of the off-site supervision activities, a number of irregularities were found at FORTE, which led to the decision to carry out an unannounced inspection, following which the authority decided to withdraw the company's operating license -The analysis in 2016 of the measures plan imposed to LIG (as a result of an unannounced control inspection over the period 2014-2015) led to the need to undergo a new unannounced inspection, which showed the non-fulfilment of the plan, thus leading to the withdrawal of the authorization operation and initiation of the bankruptcy procedure. -For CARPATICA, during the first half of 2016, the authority carried out monitoring actions for the recovery plan, which included analyses of the potential investors, as well as the steps taken on the resolution procedure, as well as the analysis of the monthly reports of the FGA Special Administrator. At the same time, the authority carried out an unannounced control inspection on the evaluation of the manner of establishing the damages reserve approved on 31.12.2015. -At the same time, the inspections initiated at the end of 2015, finalized with recovery action plans, have also been completed.
The analysis of recovery plans all undertakings with more than 5% market share are obliged to draw up in accordance with the provisions of the Law on insurers' recovery and resolution. The analysis of feasibility studies on the authorisation to practice new classes of insurance, such as the A3 class "land vehicles, exclusive railway rolling stock, covering damages or losses related to: motor vehicles, other vehicles" and the A10 class "motor liability, for the use of land vehicles, including carrier's liability". Analysis and approval of the application of the volatility premium for the relevant structure of the risk-free interest rate for an insurance undertaking. Analysis of portfolio transfer requests for insurance contracts both on the non-life and life insurance segments. The analysis of registered share capital increases in total amount of Lei 239.8 million lei for 3 companies.	

In 2016, **2 insurance undertakings ceased their activity**:

Carpatica Asig SA: In July 2016, FSA decided to stop the recovery procedure-based on financial recovery plan, initiate the bankruptcy procedure and withdraw the company's authorization. The decision was based on the analysis of the results of the recovery plan undertaken by the undertaking, which showed that the measures applied in the financial recovery procedure were not implemented correctly, within the agreed timeframe and conditions. This situation could not lead to the achievement of the intended purpose, namely the recovery of the undertaking's solvency and the removal of causes determining the deterioration of the indicators / financial situation. The main measures included in the plan were the recapitalization by the attraction of new investors, the reduction of the MTPL share of the total portfolio, the reduction of the combined damage rate, etc.

FORTE SA: In July 2016, FSA decided to withdraw the company's operating license and initiate the bankruptcy proceedings as a result of failure to implement by the end of March 2016 the measures undertaken by the plan forwarded to FSA, after participating in the BSRE exercise. It also led to an unannounced control that highlighted a number of significant weaknesses at company level, such as failure to meet legal solvency conditions, as well as the impossibility to pay current liabilities. Prior to that decision, after analysing the documentation submitted FSA rejected the acquisition plan submitted by BBP Bandenia PLC, given that the applicable legal provisions were not observed.

Also, by the FSA decision no. 2347 / 27.12.2016, entered into force on the date of its publication in the Official Gazette of January 5, 2017, FSA decided to withdraw the operating license of **LIG Insurance SA** and to initiate the bankruptcy proceedings as a result of non-fulfilment, within the set term and under the agreed conditions, of the measures related to the adequacy of the eligible own funds to cover MCR and SCR according to the short-term financing plan, respectively to the recovery plan approved by the Board of Directors of the company. The decision was based on an unannounced inspection action, following which the inspection team found that, on 20.04.2016, the undertaking had negative own capital.

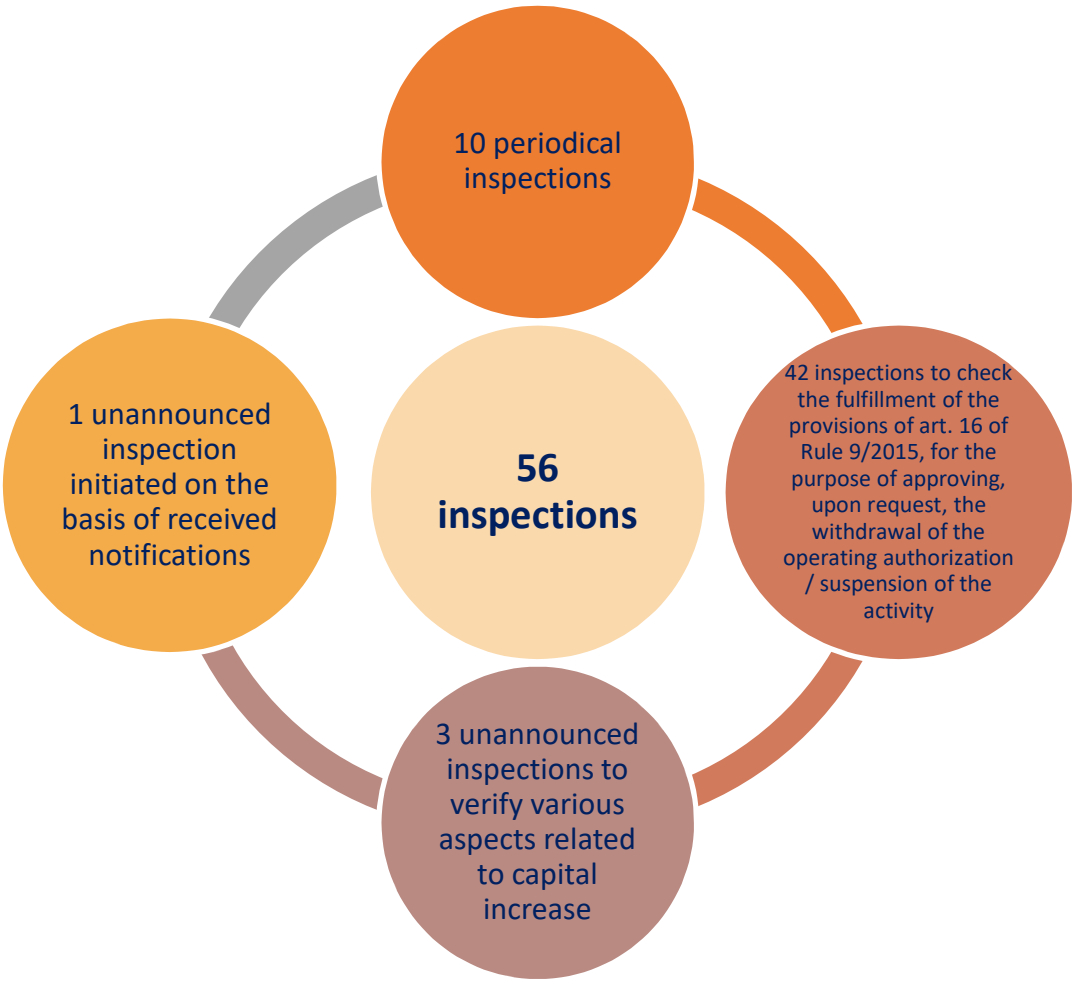
During 2016, 2 undertakings undergoing financial recovery processes were included in the high-risk category, while another undertaking which fulfilled all solvency requirements was placed in a voluntary liquidation procedure starting June 2016.

In 2016, there was **one insurance undertaking which had its operating license withdrawn as a result of a merger.**

Metropolitan Life: In July 2016, by Decision no. 1446 / 20.07.2016, FSA approved the transfer upon request of the insurance portfolio of Metropolitan to MEL and MEIL, the merger between Metropolitan and MEL in Ireland and the withdrawal of the authorization of Metropolitan Romania, the undertaking continuing to operate on the territory of Romania through 2 branches, one for life insurance and the other for non-life insurance. At the time of the portfolio transfer to Metropolitan Ireland, the company ranked 3rd in the top of life insurance undertakings in Romania.

"Off-site" and "on-site" supervision of insurance intermediaries

In 2016, following the quarterly, half-yearly and annual reports (for 2015), 53 brokers were found not to have complied with the legal requirements on the drafting and submitting of reports, 27 of them being sanctioned. In 2016, 61 sanctioning decisions were made by FSA as a result of the supervision activity. The comparative analysis of 2016 in terms of the number of applied sanctions shows a considerable decrease, from 113 in 2015 to 61 in 2016. No notifications were made in the 4th quarter of 2016, which shows an increase in the degree of compliance of insurance brokers as a result of their regular guidance and monitoring.



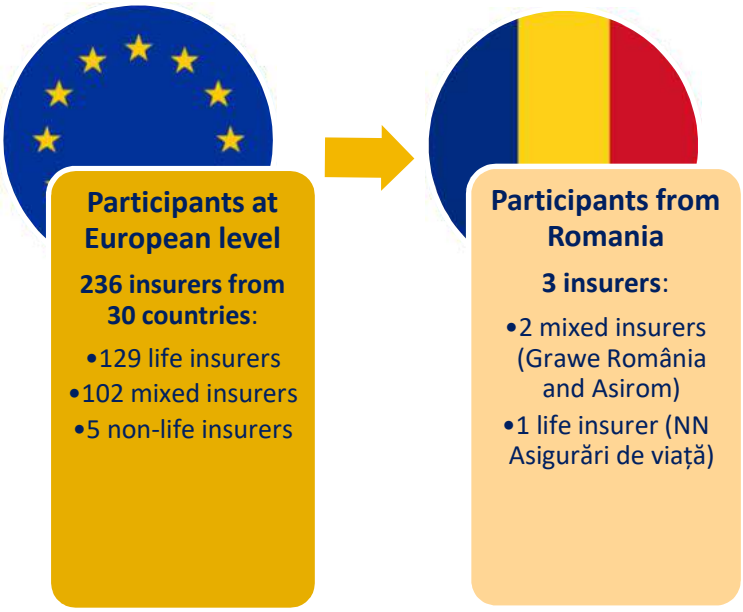
Periodical inspections focused on the control of the activities undertaken by insurance and / or reinsurance brokers, over the last two years, according to the inspection topics for 2016, approved by the FSA Council.
As a result of the control activity, FSA issued 9 sanctioning decisions up to 31.12.2016.
In 2016 139 companies had their operating licences withdrawn on demand or as a sanction. In total, from the entering into force of Rule no. 9/2015 and until 31.12.2016, FSA withdrew the operating license for 190 insurance brokers.

Romania's participation in the stress test launched by EIOPA

In 2016 a stress test in the insurance sector was conducted at European level, mainly for life insurance undertakings that have in their portfolio products with interest rate guarantees, perceived as particularly vulnerable to an extended period of low interest rates. The exercise and the technical specifications were approved by EIOPA Board of Supervisors, the exercise being officially launched in May 2016.

The framework for the exercise and its outcomes were presented by EIOPA in a report which was subject to the approval of the Board of Supervisors and subsequently published. We present here below the most relevant information in this report, both at European level and for the sample of Romanian undertakings participating in the exercise.

EIOPA wanted to make sure that the participating entities are representative of each national market, ensuring a market coverage in each jurisdiction of at least 75% of the level of the technical provisions for life insurance at the end of 2015 (excluding health insurance, index-linked and unit-linked premiums), including a sufficient number of medium and small undertakings. However, in order to avoid the participation of small undertakings in the exercise, it was allowed to reduce the coverage level of the national market from 75% to 50% in order to avoid the inclusion of companies with a market share of less than 1% or with technical provisions of less than EUR 50 million.

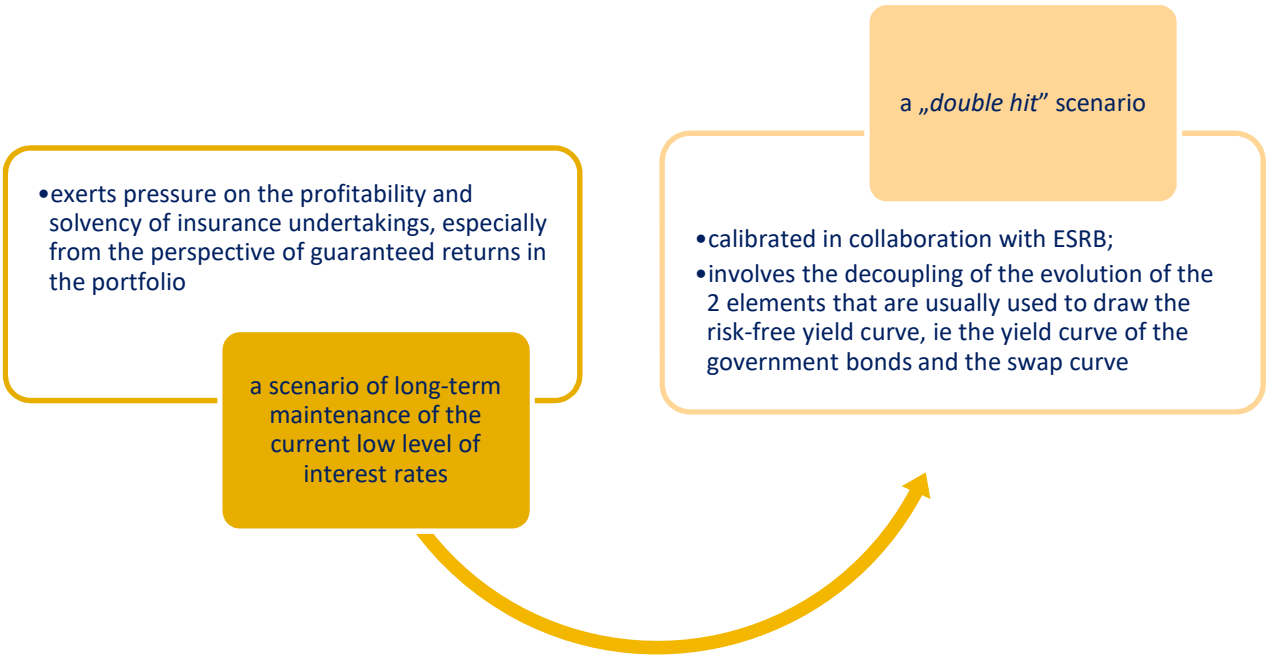


Thus, 236 insurance undertakings fulfilling the criteria, from 30 European countries participated in the exercise. Out of these, 129 were life undertakings, 102 were undertakings pursuing both life and non-life insurance activities and 5 were non-life insurance undertakings.

3 undertakings from Romania were selected to participate in the exercise, out of which 2 mixed undertakings and 1 life insurance undertaking, which met the criteria set at European level with regard to the minimum market share: NN Asigurări de Viață, Grawe Romania and ASIROM VIG. The coverage for participants in Romania was therefore almost equal to the average coverage degree at European level, ie 77%.

The exercise had a "bottom-up" nature, in which participants calculated individually and reported the impact for each stress scenario, according to the official methodology communicated by EIOPA. The reference date is 1 January 2016 (Day I), all calculations and data being reported according to the Solvency II regime.

In this exercise, **2 stress scenarios** were tested:



The "*double hit*" scenario involves simultaneously the maintenance of the swap curve at a low level and an increase in the government securities yields as a result of a shock. Such an evolution would exert a double pressure on the life insurance undertakings as it would lead to the maintenance of insurance liabilities at a high level, while at the same time decreasing the value of the assets.

In both stress scenarios, an instantaneous shock is applied to the regulatory balance sheet and related reported figures, such as the composition of assets and liabilities and cash flow projections.

The valuation of the pre and post stress test balance sheets was based on Solvency II and participating insurance undertakings were obliged to use those Solvency II measures and features for which they have obtained the explicit

approval of the national supervisory authority in the context of the reporting for Day 1 (e.g. internal models, transitional measures, volatility adjustment).

The effects of the „double hit" impact for Romanian undertakings participating in the exercise

The most important impact registered under the "double hit" (DH) scenario, having the following effects:

- a decrease in total assets by 4.1%, which led to Romania's inclusion in Group 2 (the second most favorable after this criterion
- decrease in total liabilities by 0,4%
- a 22.4% decrease in the level of excess assets compared to liabilities (compared with a larger average decrease of 28.9% at European level)
- a similar impact on the total eligible own funds to meet the SCR
- a decrease by 23.5% in total eligible own funds to meet MCR

Thus, following the application of this scenario, the assets over liabilities ratio decreased to about 116% compared to 120% pre-stress, resulting in Romania being ranked in Group 4 (the second most favourable after this criterion).

In nominal terms, in terms of assets, the largest impact of this scenario (and at the same time only relevant for the Romanian sample) was on government bond investments, which had a decrease of approximately Eur 31 million (-7 , 3% compared to the baseline scenario). There was also an impact on placements in the collective investment undertakings (Eur -6.2 million, representing -31.7% compared to the baseline scenario).

As mentioned in the previous enumeration, this scenario did not have a significant impact on total liabilities (nor on any of their components, in particular). In nominal terms, the highest impact on an element of liabilities was found for deferred tax liabilities, which decreased by Eur 4.3 million compared to the baseline scenario, the impact being therefore insignificant.

The above-mentioned trends on the impact of the "double hit" scenario on assets (total and category) are also valid for each of the 3 participating undertakings. These are mainly the result of the significant weight of government bonds in the investment portfolios of Romanian insurance undertakings.

The impact of the "low yield for long" (LY) scenario was insignificant at national level, leading to:

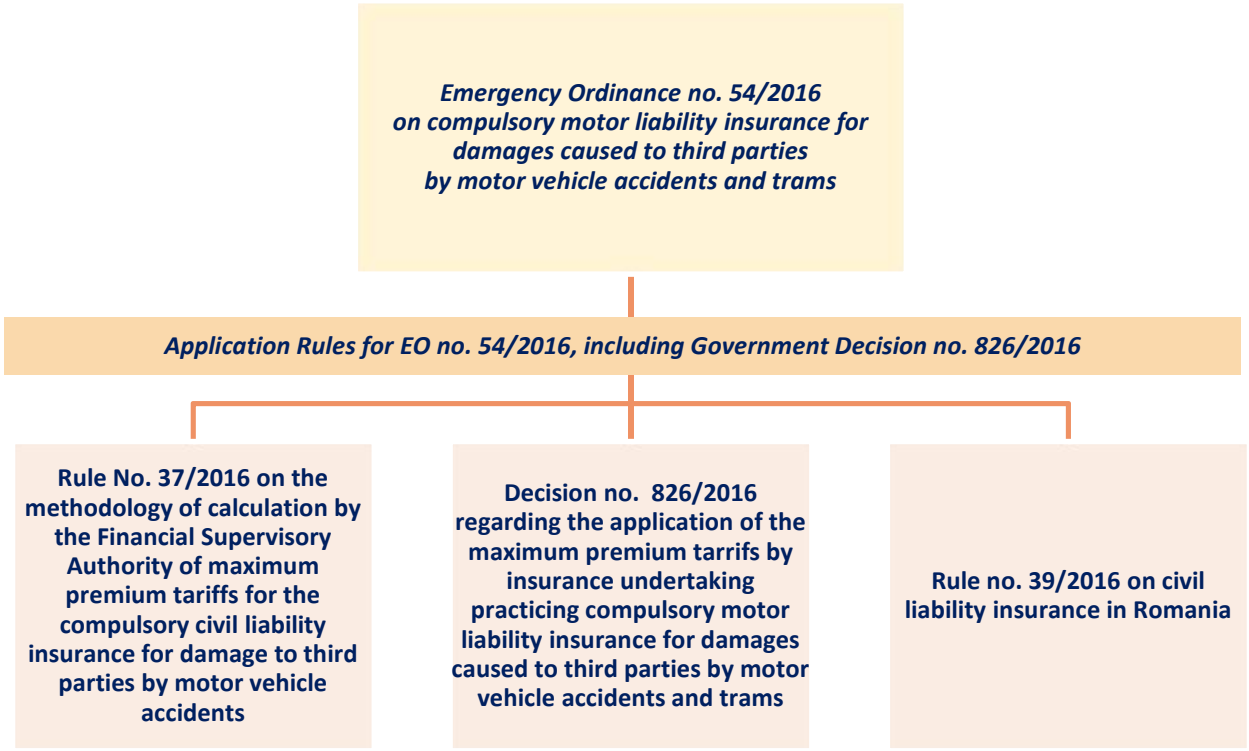
- increase of total assets by 0.7%,
- increase of the total liabilities by 2.0%
- a 5.5% decrease in the level of excess of assets over liabilities
- a 5.3% decrease in the total eligible own funds to cover SCRs
- a 5.4% decrease in the total eligible own funds to cover MCR

The main determinants of these developments are the same as those mentioned above for the "double hit" scenario, plus the fact that the insurance products with guaranteed benefits are not significant on the Romanian life insurance market and therefore the "low yield for long" scenario (which is more stressful for companies that offer such products) had only a marginal impact.

Measures to normalize situation of the MTPL market

1. Regulation	2. Supervision	3. Consumer protection
Drawing up the Draft MTPL Law; Updating secondary legislation in the area of MTPL; Impose the review of the latest actuarial calculations related to MTPL premiums by an independent actuary; Focus on lowering administrative and intermediation costs.	Repeated working meetings with UNSAR/ UN-SICAR and undertakings in the market; Consultations with carrier's 'employers' organizations; Controls to insurance undertakings on the justification of notified premiums and independent market analysis to determine benchmarks; Monthly monitoring of MTPL fees for vans / lorries and passenger vehicles; Monthly monitoring of the implementation of maximum fees by insurance undertakings authorized to sell MTPL insurance policies; Calculation of the maximum premium rates by the FSA; Developing and diversifying the offer: 2 undertakings expanded their insurance business on the basis of free movement on the MTPL market (Dallbogg, EuroInsurance) and a local insurer was also authorized to practice MTPL (Grawe).	Analysis of the compensation and resolution of the MTPL damage cases; Measures to adequately inform consumers.

Legislation in the field of compulsory motor liability insurance



Emergency Ordinance no. 54/2016

Published in the Official Gazette of Romania, Part I, no. 807 of 13 October 2016

- regulates the civil liability insurances for car owners covering prejudices produced to third parties by vehicle accidents of vehicles and trams, further on called MTPL insurance, as well as the organization and operation of the Motor Vehicles Insurers Office of Romania, further on called BAAR.

Measures to amend the legislation on compulsory civil liability insurance for prejudices produced to third parties by vehicle accidents with the purpose of rebalancing and consolidating the compulsory MTPL insurance market.

Rule no. 37/2016

Published in the Official Gazette of Romania, Part I, no. 807 of 13 October 2016

- regulates the methodology applied by the Financial Supervisory Authority for the calculation of maximum premium tariffs related to compulsory civil liability insurance for damage to third parties by motor vehicle accidents, according to the provisions of art. 36 para (3) of the Government Emergency Ordinance no. 54/2016 on compulsory motor liability insurance for damages caused to third parties by motor vehicle accidents and trams
- based on the methodology set out by Rule, FSA determined the maximum MTPL premium tariffs for the following categories of vehicles:
  a) passenger cars, SUVs and mixed vehicles with a maximum authorized mass less than 3.5 tons and maximum 9 seats;
  b) passenger motor vehicles (minibuses, buses, coaches, including specialized vehicles) with more than 9 seats;
  c)) motorcycles, mopeds, hybrid electric motorcycles and ATVs with or without a sidecar;
  d) road tractors;
  e) motor vehicles for the transport of goods;
  f) trailers and semi-trailers;
  g) other vehicles, such as vehicles with special regime, machines etc.

Decision no. 826/2016

Published in the Official Gazette of Romania, Part I, no. 896 of 8 November 2016

- sets the maximum premium fees for compulsory motor liability insurance for damages caused to third parties by motor vehicle accidents and trams, applied by insurance undertaking practicing compulsory motor liability insurance for damages caused to third parties by motor vehicle accidents and trams, hereinafter referred to as MTPL insurance undertakings, according to the provisions of art. 4 para (3) of the Competition Law no. 21/1996, republished;
- maximum premium fees are used by MTPL insurance undertakings for the 6 months following the entering into force of the decision and applies only to insurance contracts concluded after the entering into force of the decision.

Rule no. 39/2016

Published in the Official Gazette of Romania, Part I, no. 986 of 8 December 2016

- regulates the form and contents of the civil liability insurance for car owners against damages caused to third parties in vehicle and tram accidents; authorization conditions and criteria for the insurance undertaking to practice the MTPL insurance; the procedure concerning the notification, damage finding and damage claim liquidation; the bonus-malus system; the form, dimensions, contents and procedures regarding the use of the Amicable Accident Finding form for vehicle accidents; the procedure of notification and registration, obligations and liabilities of the personnel performs the finding of damages.

Measures to protect consumer interests and stabilise the market

Short-term actions

- unannounced inspection actions to all 9 MTPL-authorized undertakings;
- revision of the MTPL fees calculation by an independent actuary;
- removal of the 10% threshold for discounts;
- contracting an actuarial consultant to develop a reference MTPL grid for the entire market;
- discussions with the Romanian Actuarial Association (RAA) on the development of a set of good practices regarding the setting of MTPL tariffs.

Medium and long-term actions

- increasing transparency on access to essential information, proper information to consumers and the dissemination of accurate, complete and on-time information;
- amending legislation in order to regulate compensations for moral damages and bodily injuries;
- enhancing the measures and instruments for the supervision of the way in which the provisioning of the reserves is made.

Independent market analysis to determine benchmarks

At the beginning of 2016, the Financial Supervisory Authority requested the consulting firm Milliman to carry out an independent analysis in order to determine, at the MTPL market level, reference points for average damage and the average frequency of the damage, based on comparable data for the 9 undertakings authorized to practice compulsory motor liability insurance. As a result, the main indicators of market damage were provided for the first time: the frequency of damage and average damage in relation to the most used charging factors: age, county, vehicle type, cylinder capacity in the case of individuals, and county, vehicle type and the maximum authorized mass in the case of legal entities.

Capping MTPL insurance premiums

Starting with September 19, 2016, GEO 54/2016 on compulsory motor liability insurance for damages caused to third parties by motor vehicle accidents and trams entered into force, making substantial changes to the previous legislative framework (Law 136/1995), such as: the possibility of concluding the MTPL contract for a period of 1 month to 12 months, multiple months, the possibility of suspending the MTPL contract, the payment in instalments, the change of the bonus-malus system, the FSA obligation to calculate an indicative reference tariff quarterly, and the maximal premium tariffs for a 6-month period, the reorganization of BAAR, which will take over the entire FPVS patrimony and other legal provisions.

Thus, the Government capped compulsory motor insurance premiums. The capping of insurance premiums entered into force on 17 November 2016 for a period of 6 months and was triggered by the exit from the insurance market of insurance undertakings which sold cheaper insurance policies, but which registered massive losses, as well as by the major financial difficulties faced by other companies on the market.

As a result, FSA has developed and published a regulatory framework to help ensure a greater transparency in relation to third parties regarding the way in which maximum premium rates are set.

Using the methodology in the legal framework in force, the maximum premium rates insurance undertakings have to apply for a period of 6 months have been determined. At the same time, FSA has monitored the application of these maximum rates and continued monitoring the average premiums, by types of policy holders.

What's next?

MTPL: measures to exit the capped price period and stabilize the market

- implementing solutions for managing high-risk policyholders
- cooperation with the World Bank and an independent consultant on the transition from the maximum premium tariff to the reference tariff
- continuing the increased supervision of the way in which the provision of the claims reserve is made.
- implementing solutions to apply the law on compensation for moral damages and bodily injuries
- continuing the efforts to increase transparency on access to essential information, appropriate information to consumers and the dissemination of accurate, complete and on-time information

Continuing the development of risk-based supervision

Sectoral risk indicators and a risk map for the Romanian insurance market I

Continue the internal process of reviewing the entire supervision function based on risk assessment

Continuing the monitoring of the special supervision of insurance undertakings in difficulty and subject to recovery measures according to Law no. 503/2004 and Law no. 237/2015

Alignment of all internal procedures and guides with the EIOPA Supervision Manual

Regulatory activity in the insurance sector

Primary Legislation on the resolution mechanism for insurance companies

1. Law no. 246/2015 on insurers' recovery and resolution (published in the Official Gazette, Part I no. 813 of 02 November 2015).

The Law provides the rules and procedures on the recovery and resolution of insurers, Romanian legal entities.
In performing its duties provided this law, the Financial Supervisory Authority considers the nature, scope and complexity of the activities undertaken, the shareholders' structure, the type of legal entity, the risk profile, the size, the interconnection with other financial institutions or with the financial system in general.

Rules for the application of Law no. 246/2015 on the insurers' recovery and resolution

1. Rule no. 4/2016 on the management of the insurers' Resolution Fund (published in the Official Gazette, Part I no. 80 of 03 February 2016).

- the rule lays down the conditions for the establishment, management and use of the Insurers' Resolution Fund, for the efficient application of the resolution tools and powers by the Financial Supervisory Authority, in its capacity of resolution authority;
- the financial resources of the Resolution Fund shall be used as instructed by FSA by decision, as resolution authority, and consistent with the objectives set by such decision and with the resolution principles set out in Art. 44 of Law No. 246/2015 on the insurers' recovery and resolution, hereinafter referred to as Law No. 246/2015 on the insurers' recovery and resolution
- the establishment of the Resolution Fund envisages the implementation of the resolution measures to ensure continuity of the critical financial and economic functions thereof and to prevent contagion, by avoiding any significant negative effects on the stability of the insurance market

2. Rule no. 5/2016 on the identification of situations where it is considered that an insurer shall find itself in difficulty or it is likely to find itself in difficulty (published in the Official Gazette, Part I no. 79 of 03 February 2016).

- lays down a number of objective elements which shall substantiate the determination that an insurer shall find itself in difficulty or it is likely to find itself in difficulty, as provided by Art. 43(1) or Art. 129 of Law No. 246/2015 on the insurers' recovery and resolution, hereinafter referred to as Law No. 246/2015 the insurers' recovery and resolution;
- subject to the terms set out in Art. 42(2) of Law No. 246/2015, the resolution directorate, after consulting the supervisory directorate, may determine whether an insurer shall find itself in difficulty or it is likely to find itself in difficulty

3. Rule no. 6/2016 on the evaluation and resolution decision-making process (published in the Official Gazette, Part I no. 79 of 03 February 2016).

- the rule lays down the conditions which the financial auditor must meet where it evaluates an insurer, as set out in Art. 55, Art. 57 – Art. 62, and in Art. 131 of Law No. 246/2015 on the insurers' recovery and resolution;
- the aspects which must be considered by the financial auditor set out in Art. 55 of Law No. 246/2015, where an independent evaluation of an insurer is carried out.

4. Rule no. 7/2016 on transparency rules in the case of application of resolution tools by the Financial Supervisory Authority (published in the Official Gazette, Part I no. 79 of 03 February 2016).

- the rule lays down the publication of the resolution measures where the Financial Supervisory Authority applies the resolution tools and exercises the resolution powers laid down in Law No. 246/2015 on the insurers' recovery and resolution, to the insurers provided for in Art. 3(1) of the same law

5. Rule no. 8/2016 on the conditions for the implementation of the safety mechanisms and categories of contracts to which the protective measures apply (published in the Official Gazette, Part I no. 76 of 02 February 2016).

- the rules lays down the conditions for the implementation of the safety mechanisms set out in Chapter V of Law No. 246/2015 on the insurers' recovery and resolution;
- the categories of contracts to which the protective measures apply within the resolution procedure, provided for in Law No. 246/2015

6. Rule no. 10/2016 on the competences of the Financial Supervisory Authority related to early intervention measures, as well as on the required conditions to apply early intervention measures (published in the Official Gazette, Part I no. 101 of 10 February 2016).

- the rule regulates the application conditions of early intervention measures in case an insurer breaches or is likely to breach the requirements for the preservation of the authorization provided by Law No. 237/2015 regarding the authorization and supervision of insurance and reinsurance activity
- the process of supervision and assessment of qualitative and quantitative indicators, including the financial ones in view of setting up the application conditions of early intervention measures

7. Rule no. 11/2016 on the methodology used to determine the value of the derivatives where an insurer is subject to the resolution process (published in the Official Gazette, Part I no. 91 of 8 February 2016).

- this rule lays down the methodology used to determine the value of derivatives where an insurer is subject to a resolution process and applies to insurers under resolution, financial auditors and relevant counterparties.

8. Rule no. 12/2016 on the circumstances in which resolution measures may be applied (published in the Official Gazette, Part I no. 91 of 08 February 2016).

- this rule lays down a number of elements underlying the establishment of the situations where the market specific to certain assets is such that their liquidation in the normal insolvency proceedings could have a negative impact on one or several financial markets in accordance with the provisions of Art. 116 Letter a) of Law No. 246/2015 on the insurers' recovery and resolution

9. Rule no. 17/2016 on the establishment of critical functions, criteria for the establishment of core business lines and associated services, as well as the critical services that the Financial Supervisory Authority may require to an insurer subject to the resolution process (published in the Official Gazette, Part I no. 213 of 23 March 2016).

- this rule regulates the criteria for determining the activities, services or operations that fall within the category of critical functions, as well as the criteria for establishing lines of activity that fall under the category of core business lines and associated services
- critical services or facilities that the Financial Supervisory Authority may require an insurer subject to the resolution process, in order to allow a recipient to effectively carry out an activity that has been transferred to him.

10. Rule no. 18/2016 on the criteria for assessing the impact of an insurer's entering in difficulty on the insurance market and on the other insurance undertakings (published in the Official Gazette, Part I no. 218 of 24 March 2016).

- the rule regulates the criteria for assessing the impact that an insurer's entering in difficulty may have on the insurance market, on other insurers, on the financing conditions and on the real economy, as a result of the nature of its activity, the shareholder structure, the legal form, the risk profile, the size and legal status or its interconnection with other insurers, and the scope and complexity of the activity, as well as the potential effects that the situation of difficulty and its subsequent liquidation through insolvency proceedings would have.

Other measures undertaken for the smooth functioning of the insurance market

Development and improvement of the secondary legislation

1. Rule no. 2/2016 on the amendment of para. (1) of art. 47 of the Rules on the Protection Fund of street victims, enforced by the Order no. 1/2008 of the Chairman of Insurances Supervisory Commission (published in the Official Gazette, Part I no. 63 of 28 January 2016).

- amends the provisions of art. 47 as follows: the Fund shall forward to the Council of the Financial Supervisory Authority an activity report signed by all members of the Fund's Board of Directors, accompanied by the financial statements drawn up according to the legal provisions in force, audited by a financial auditor approved by the General Meeting of the Fund: the financial auditor shall forward an annual report on the financial statements, drawn up according to the International Audit Standards adopted by the Chamber of Financial Auditors of Romania

2. Rule no. 14/2016 on the closing of the 2015 financial year for the undertakings in the insurance field (published in the Official Gazette, Part I no. 140 of 24 January 2016).

- regulates the closing of the 2015 financial year for the undertakings in the insurance field, hereinafter referred to as insurers and insurance brokers;
- annual financial statements as at 31 December 2015 shall be prepared in accordance with the accountancy regulations in line with European directives specific to the insurance field, approved by the Order of the President of the Insurance Supervisory Commission no. 3.129/2005, as subsequently amended and supplemented in force as at 31 December 2015

3. Rule no. 19/2016 for amending and supplementing the Rules on the Register of Insurance and / or Reinsurance Intermediaries, implemented by the Order of the President of the Insurance Supervisory Commission no. 10/2007 (published in the Official Gazette, Part I no. 264 of 07 April 2016).

- regulates the registers which are part of the Register of insurance and / or reinsurance intermediaries, managed by the Financial Supervisory Authority, according to the provisions of art. 5 lit. q) of Law no. 32/2000 on the activity and supervision of insurance and reinsurance intermediaries, as subsequently amended and supplemented.

4. Rule no. 20/2016 on the authorization and monitoring of insurance and reinsurance undertakings (published in the Official Gazette, Part I no. 271 of 11 April 2016).

- sets the conditions and documents on the basis of which the Financial Supervisory Authority (FSA) grants the authorization for the activity of the companies referred to in art. 1 par. (2) point 56 of the Law no. 237/2015;
- the monitoring of the activities carried out by insurance undertakings.

5. Rule no. 21/2016 on insurance and / or reinsurance reporting (published in the Official Gazette, Part I no. 268 of 8 April 2016).

- regulates the obligation to apply the guidelines issued by the European Insurance and Occupational Pensions Supervisor (EIOPA) in order to meet the requirements for preparing reports included in the regular reporting provided by law, as well as the obligation to submit to the Authority Financial Supervision, additional reporting for statistical and supervisory purposes drawn up on the basis of accounting and technical-operative records

6. Rule no. 26/2016 on the supervision of branches of third-country insurance undertakings (published in the Official Gazette, Part I no. 409 of 31 May 2016).

- the provisions of the rule apply to the companies referred to in art. 1 par. (1) lit. c) of Law no. 237/2015 regarding the authorization and supervision of the insurance and reinsurance activity, which intends to carry out the insurance and reinsurance activity on the territory of Romania in accordance with Chapter. X of Law no. 237/2015
- implements the Guide of the European Insurance and Occupational Pensions Authority on the supervision of branches of third-country insurance undertakings

7. Rule no. 27/2016 for amending and supplementing the Rule no. 34/2015 of the Financial Supervisory Authority on quantitative requirements established by the European Insurance and Occupational Pensions Supervisory Authority (published in the Official Gazette, Part I no. 417 of 02 June 2016).

- amends art. 2 and implements the requirements referred to in paragraph (1) of the guidelines of the European Insurance and Occupational Pensions Supervisory Authority

8. Rule no. 29/2016 for the amendment of annex no. 1 to Rules on the Register of intermediaries in insurance and/or reinsurance, implemented by the CSA Order No. 10/2007 (published in the Official Gazette, Part I no. 486 of 29 June 2016)

- amends Annex no. 1 of the rules and the deadline in art. II.

9. Rule no. 31/2016 on the allocation and/or payment by insurers of the share capital for the voluntary pension funds management activity (published in the Official Gazette, Part I no. 588 of 02 August 2016).

- regulates the procedure and conditions under which an insurer may allocate from its own share capital, related to the life insurance business, sources for capital formation necessary for authorization as manager of voluntary pension funds according to art. 10 of Law no. 204/2006 on voluntary pensions, as subsequently amended and supplemented;
- applies to both insurers supervised according to Part I of Law no. 237/2015 on the authorization and supervision of the insurance and reinsurance business, and those supervised according to Part II of the same law.

10. Rule no. 33/2016 for the implementation of the Accounting Reporting System on 30 June 2016 of insurance companies (published in the Official Gazette, Part I no. 591 of 03 August 2016).

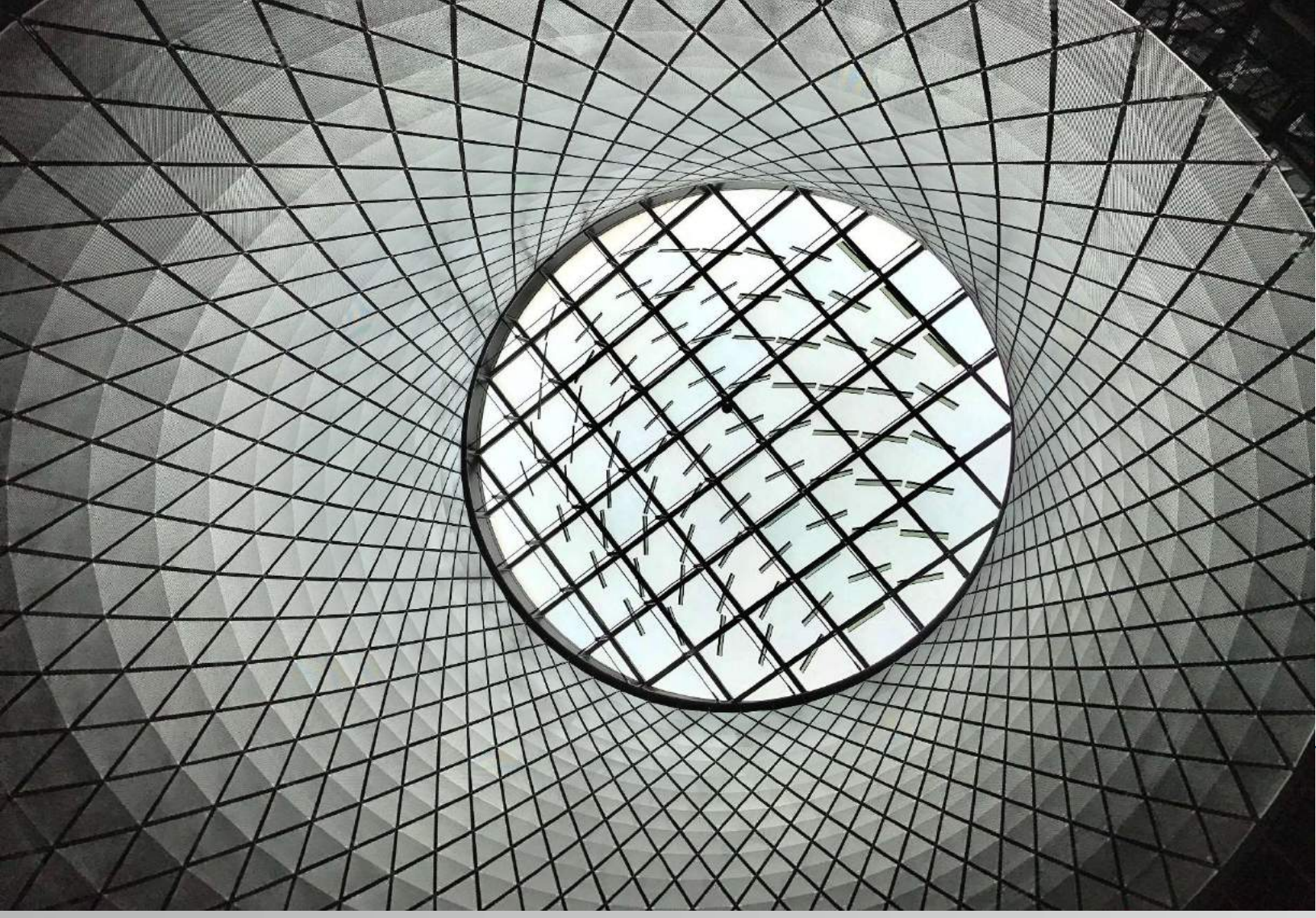
- is applicable to the entities which fall under the provisions of the Rule no. 41/2015 of the Financial Supervision Authority for the approval of the Accounting Regulations concerning the separate and consolidated annual financial statements of the entities pursuing the insurance and/or reinsurance business, respectively of Rule no. 36/2015 of the Financial Supervisory Authority Regulation for the approval of the Accounting Regulations concerning the separate and consolidated annual financial statements of the insurance and/or reinsurance brokers;
- shall apply to the following entities:
  a) insurance and reinsurance undertakings based in the territory of Romania, Romanian legal persons, authorised to pursue business under Law No. 237/2015 on the authorisation and supervision of insurance and reinsurance business;
  b) insurance and/or reinsurance brokers authorized under Law no. 32/2000 regarding the activity and supervision of intermediaries in insurance and reinsurance, as subsequently amended and supplemented;
  c) subunits without legal personality established in Romania under Law No. 237/2015, belonging to legal person insurance and reinsurance undertakings, based in third countries;
  d) subunits without legal personality established in Romania under Law No. 237/2015, belonging to legal person insurance and reinsurance undertakings, based in other Member States.

11. Rule no. 35/2016 amending and supplementing Financial Supervisory Authority Rule No. 7/2013 on the form and clauses included in the compulsory home insurance contracts against earthquakes, landslides and floods (published in the Official Gazette, Part I no. 654 of 25 August 2016).

- redefines some basic notions provided by the Rule;
- regulates certain technical aspects that fall within the competence of the FSA, as provided for by Law 260/2008 republished, as subsequently amended and supplemented;
- amends some aspects regarding the format of the PAD insurance policy according to the proposals of PAID, UNSAR, CPBR, respectively the exclusion of the signature of the INSURED / CONTRACTOR and the issuance of the policies in electronic system.

12. Rule no. 38/2016 on the rights, obligations, competences and designation of the special administrator (published in the Official Gazette, Part I no. 971 of 05 December 2016).

- sets the opening of a Special Registry entitled the Registry of Special Administrators – SAR;
- In order to be enlisted in the Registry of Special Administrators - SAR, a natural or legal person must have the capacity of insolvency practitioner, recorded in the National Union of Insolvency Practitioners of Romania Register, published on the website of the National Union of Insolvency Practitioners of Romania, hereinafter referred to as NUIPR, and submit the following documents to the FSA:
  - supporting document issued by NUIPR indicating the capacity of insolvency practitioner for the relevant natural person or legal entity, the fact that it is not suspended of deemed incompatible and that it was not the subject of any disciplinary sanctions in the previous 3 years;
  - a copy of the professional liability insurance agreement;
  - a list of the main services provided in the previous 3 years highlighting the experience in the financial-banking sector and in financial recovery or insolvency procedures or in procedures for restructuring the activities or reorganizing certain companies and for crisis management.

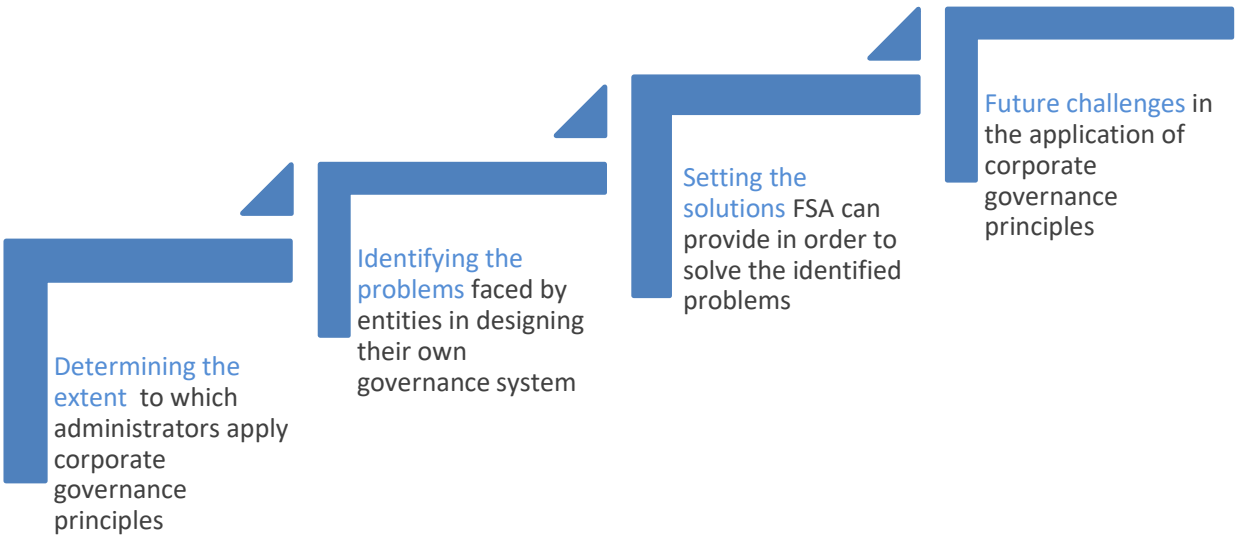


PRIVATE PENSIONS MARKET

Evaluation of corporate governance principles application

Once FSA *Regulation no. 2/2016 on the application of the principles of corporate governance by the entities authorised, regulated and supervised by FSA* entered into force, the Private Pensions System Sector submitted to having a proactive attitude towards the evaluation of the extent to which administrators of private and voluntary pensions funds used to apply the corporate governance principles before the Regulation became official.

The purpose was to help both administration entities and the FSA to have an overview of the extent in which private pension funds administrators comply with this new regulation.



Main objectives

Conclusions of the evaluation process

At the end of the project, the most part of the governance structure was implemented, as it was most easily to put into practice, considering that the legal requirements applicable to such entities at the time their activities started were very similar to those for the proposed structure.

At the end of the project, the governance mechanisms were considered as needing additional resources from private pension funds administrators in order to be in line with the growth rate of their activity, the value of the assets of the administered pension funds and the carried out operations.

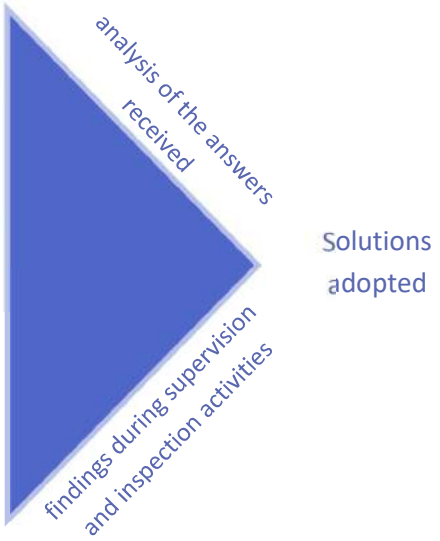
Provide by the secondary regulation the obligativity to employ the internal auditor under a full time employment contract.

Provide by the secondary regulation a special requirement on the organisation of professional training programmes specific for the investment field.

Need to introduce the obligativity to organise professional training courses for the persons holding key positions.

Increasing the number of people who support each key position (ensuring back-up staff);

Developing and updating software applications to the level of current higher requirements.



Thus, in order to ensure the adequate implementation of the governance structure, the supervised entities were informed on the areas that needed additional allocation of resources and activities in order to make sure the deadlines for the completion of the governance structure implementation are observed, in regard to:

- ensuring a transparent and adequate organisational structure;
- adequate allocation and proper separation of duties;
- adequate management of risks/risk management;
- matching policies and strategies, as well as internal control mechanisms;
- ensuring an efficient information and communication system.

Concerning the governance mechanisms, through its supervision and inspection activities, FSA established measures and made recommendations, in order to make sure that they are correlated with the value of the assets cumulated by the administered pension funds and with the volume and complexity of the operations carried out by each administrator.

Conclusion

The evaluation ***confirmed that corporate governance principles are applied to a reasonable extent*** by the administrators of private and voluntary pension funds, on the 2 components:

- governance structure and
- governance mechanisms,

thus ensuring the premises of their full implementation by the date when the Regulation no. 2/2016 on the application of the principles of corporate governance by the entities authorized, regulated and supervised by the Financial Supervisory Authority enters into force.

Risk management system – implementing good practices
(for private pension funds)

The risk management system can be defined as the process carried out by the management of an organization, by executives and by other types of personnel, designed to provide a reasonable guarantee that objectives such as: effectiveness, efficiency and adaptability of operations, reliability of financial reporting, compliance with legislation and regulations issued for its application are achieved. The process does not involve only one policy or procedure performed at a certain time, as it must function continuously, at all levels of an organization and involve all its staff.

Good practices aim to highlight the main features of risk management systems. These refer to the role of the management in the risk management process, with a more detailed look at investment risk, solvency risk and operational risk, as well as the risk of management mechanisms that should be in place (including monitoring and reporting) .

Good practices also provide guidelines for pension fund regulators and supervising authorities on how to verify the effective operation of such ssystems.

An effective risk management system consists of the strategies, processes and reporting procedures necessary to identify, measure, monitor, manage and report continuously all significant risks, at an aggregate level, where the pensions fund could be exposed individually. The risk management system must be well integrated in the organizational structure and in decision-making process of the pension fund.

Private pension fund administrators face various risks as part of their daily activity. Risks arise in meeting investment goals, but also as part of day-to-day operations carried out in managing pension funds.

Risks management structure

- within the pension fund administrator -

Responsible for the following actions:

- Identification
- Analysis
- Evaluation
- Mitigation
- Monitoring
- Reporting

Risks faced by:

- Private pension funds
- Administrator

Regardless of the way the risk management department is organized and the way in which the risk management is implemented within the entity managing the private pension fund, the following topics should be considered in the risk management process:

Risk management requires a change in the management style, primarily the attitude of managers who, in addition to the reactive approach of the impact of certain risk events, must also develop future-oriented reactions. The identification and ranking of the threats to which the private pension fund management entity is exposed contributes to optimizing the allocation of resources, thus enabling efforts to focus on key issues and facilitating the achievement of organizational goals.

Implementing biometric signature in the accession of participants (to the private pensions system)

Digitalization has a rapid evolution, with strong implications in all areas of social life. Also within the private pension system it was found that the current trends of the technological development started to be taken up by the pension fund participants, as there is a tendency to increase the number of people expressing their desire to communicate by electronic means in order to be informed and also for making transactions (changes of the personal data, changes in the value of the contribution etc.).

In this context, in the process of signing individual adhesion documents to a pension fund, *the use of biometric signature as part of this process brings **many benefits to participants** and potential future participants in pension funds, but also to private funds administrators.*

Use of modern technologies with high information security	The use of the biometric signature requires the implementation of a modern technology that can completely eliminate the use of physical documents, ensuring a better protection of the personal data of participants, that will be stored only in electronic format, on the servers of each administrator, servers that have to comply with the highest standards on information security.
This makes the adhesion process more efficient by reducing the time for registering individual adhesion documents in the IT systems of the administrators. Also the registration and management of individual adhesion documents will be simplified and streamlined, while the risk of erroneous processing of participants data decreases considerably.	Increase in the operational efficiency and minimization of operational error risk

Reduce the risk of fraud	By using this technology to sign an individual act of adhesion, the risk of fraud by unauthorized signing of such a document is greatly reduced, as the existing technology is able to accurately identify even the physical place where the adhesion document was signed.
Given that the private pension is addressed to young people at the beginning of their activity, people who are familiar with the latest trends in information technology, we consider it important to provide participants with a modern and safe tool for joining a pension fund private.	Increase in the operational efficiency and minimization of operational error risk

The biometric signature at the time of its registration combines calligraphic aspects with signature pressure. The uniqueness of these elements gives a much higher security to the handwritten signature by checkin information on the speed and acceleration with which the signature was applied, the pressure and the angle of application. The multitude of biometric signature elements, as well as their uniqueness, make it hard to fake.

FSA has consulted and discussed the findings with private and voluntary pension funds administrators and presented the proposal to implement the biometric signature as a possibility that can be used in the process of signing the individual adhesion document. Administrators' representatives expressed their interest in the introduction of the biometric signature for the signing of individual documents in the adhesion process.
Following the completion of the project, the following emerged:

Adhesion process when using electronic signature

1. The individual adhesion document will be also filled in electronically. The marketing agent will check the data filled in by the participant and will make a scanned copy of his identity document.
2. Once the individual adhesion document is filled in electronically, it will be signed biometrically by the potential participant, assisted by the marketing agent.
3. After the application of the biometric signature, the individual adhesion document is sent by electronic means both to the administrator's databases as well as to the e-mail address provided by the potential participant. If the participant does not have an e-mail address, the individual adhesion document will be printed and handed to him on paper. The printed copy of the individual adhesion document shall have the same content and form as the one signed electronically, including all the participant's data provided by latter at the time of signing.
4. The receipt of the individual adhesion document at the administrator's head office the will be done only by electronic means and will be validated by the administrator's employees in the case of voluntary pension funds or referred for validation to the record institution in the case of privately managed pensions funds.
5. The archiving of the individual adhesion documents shall be made only in electronic format, along with the biometric signature specifications.

Updating the legislative framework in 2017 in order to make the use of biometric signature operational in the field of private pensions, namely the amendment of the following norms:

- Norm no. 1/2015 on the adhesion and record of participants to the privately administered pension funds;
- Norm no. 2/2011 on the adhesion and record of participants to the voluntary pension funds;
- Norm no. 14/2006 on the transfer of participants between voluntary pension funds, as subsequently amended and supplemented;
- Norm no. 26/2014 on the transfer of participants between privately administered pension funds, as subsequently amended and supplemented;
- Norm no. 3/2013 on the marketing activity of the privately administered pension fund;
- Norm no. 16/2013 on the marketing of the voluntary pension scheme prospectus.

The process of updating the legislative framework, by amending the above-presented set of rules, started in the first quarter of 2017.

Finalise draft regulation on private pension payment

In 2016, the draft *Law on the organisation and operation of the private pension payment* was under approval, being published for public consultation on the website of the Ministry of Labour and Social Justice in November 2013

The development of the draft *Law on the organisation and operation of the private pension payment* aims at achieving the objective set under the reform of the pension system to complete the private component, by creating the legal framework for the payment of pensions due to participants and beneficiaries after the accumulation period. The draft law provides, among others, rules on the payment system for private pensions, categories of private pensions, introduces prudential principles and minimum operation requirements for the private pension provider.

The draft law also provides for **the setting-up and authorisation of funds providing private pensions**. The funds providing private pensions shall be administered by the private pension provider holding the fund administration authorisation issued by the Financial Supervisory Authority. The fund providing private pensions shall be created by memorandum of association, upon exclusive initiative of the provider.

The prudential rules established by the norm of the Financial Supervisory Authority, which the private pension providers must comply with throughout their activities include, without limitation, to: establishing the main activity and development lines of the private pension provider, the accounting policies and the financial control system, and the approval of the financial planning, establishing adequate administrative and accounting procedures, safety and control procedures for electronic data processing, and adequate internal control mechanisms, and adequate procedures to ensure separation of assets and liabilities. Private pension providers must comply with the rules of conduct issued through FSA norms.

The private pension provider has, at least, the following **obligations**: to act with honesty, fairness, and due diligence, in order to protect the interests of the members and the market integrity, to avoid conflicts of interests and ensure that the members of the pension fund benefit from a fair and impartial treatment, to undertake their activities in compliance with the regulations of the Financial Supervisory Authority, applicable for the purposes of protecting the interests of the private pension fund members and the integrity of the private pension payment system.

Regarding **the organisation of the private pension payment system**, 12 months prior the fulfilment of the retirement conditions, pursuant to law, the administrator of a private pension fund and/or of an voluntary pension fund has the obligation to notify the participant in writing on the value of the gross contributions paid, the value of the net personal asset, and the possibility to choose any private pension provision fund. On the date they fulfil the retirement conditions, participants in a private pension fund and/or in an voluntary pension fund may choose the private pension provider.

The private pension provider shall establish **the amount of the private pension**, by actuarial calculation, based on the net personal asset, in the participant's account. The private pension may be a lifelong pension or a limited pension, or other type of pension regulated by the rules of the Financial Supervisory Authority. Participants in the private pension funds who turn 70 years old and do not choose a private pension provider shall be randomly distributed by the Financial Supervisory Authority.

The participant in a private pension fund and/or a voluntary pension fund, who benefits from disability pension according to Law no. 263/2010 on the unitary system of public pensions, as further amended and supplemented, may become a member of a private pension fund and may obtain a private pension, in compliance with legal provisions.

The resources of the private pension fund shall be created from the amounts generated by the net personal assets of the members, amounts generated by the investment of such assets and possible amounts generated by the technical provisions of the provider.

The pension fund investments are highly conservative, as the goal is to protect the fund from negative variations of the market, ensuring the ability to pay the pensions established.

With regard to **the solvency** of the private pension fund, the draft law indicates that the funding rate must be at least 105% at all times. Starting with a funding rate exceeding 110%, the excess of assets may be redistributed, by actuarial calculation, to the members of the private pension fund, after full recovery of the amounts used by the private pension provider to finance the private pension fund. Such redistribution shall be performed by increasing the pension with the same percentage for all private pension fund members.

At the same time, the draft law **uses the individual liability principle**, with detailed sanctions in the private pension payment stage. The provisions on the procedure to identify and ascertain infringements, and on enforcement of sanctions, are derogations from the provisions of the Government Ordinance no.2/2001, approved, amended and supplemented by Law no.180/2002, as further amended and supplemented.

The private pension **provider**, **the custodian**, **auditor** and **actuary** **are accountable** to the members and beneficiaries, as appropriate, for any damage caused by failure to perform or improper performance of their obligations, except for force majeure cases. The liability may be civil, contraventional or criminal liability, as appropriate.

The draft law stipulates that **the fines** shall be established as follows: between 0.1% and 5% of the share capital, for legal entities, or the equivalent of 1 to 6 average salaries, paid by that legal entity to its employees, calculated based on the existing salary level during the last financial exercise finalised. Both amounts generated by fines applied to legal entities and amounts generated by fines applied to individuals shall become income to the state budget.

Supporting the implementation of the “occupational pensions” model

The draft law is currently with the Ministry of Labour and Social Justice. Law no. 204/2006 on voluntary pensions transposes the provisions of *Directive 2003/41/EC on the activities and supervision of institutions for occupational retirement provision.*

Having regard to the need and the importance of obtaining additional pensions to those provided by the public system, FSA believes that the voluntary pension system should be supplemented by implementing occupational pension schemes. Consequently, FSA cooperated with representatives of APAPR and of the Ministry of Labour and Social Justice, in order to supplement the provisions of the existing law. In May 2015, pursuant to the provisions of Art. 23 letter g) of Government Emergency Ordinance no. 50/2005 on setting-up, organization and operation of the Romanian Private Pension Supervision Commission, as further amended and supplemented, FSA submitted proposals amending and supplementing Law no. 204/2006 on voluntary pensions.

The main amendments included in the draft law amending and supplementing Law no. 204/2006 on voluntary pensions refer to the following:

Supplementing the Law with elements specific for occupational pension funds, as follows:
▪ Individual adhesion act, introducing the option of a document (individual document, addendum to employment contract etc.),
▪ Administrator – the administration structure specific to voluntary pension funds is maintained. Administrators may be newly set-up pension undertakings, insurance undertakings, investment management companies, including current administrators of voluntary pension funds;
▪ Administration contract – the object of the contract will include occupational pension;
▪ Voluntary pension fund – which may be an occupational pension fund based on a scheme proposed by an employer,
▪ Occupational pension scheme – newly introduced definition;
▪ Vesting - newly introduced definition. Only for occupational pension schemes;
▪ Contribution shares and fees may be differentiated for occupational pension schemes; only when fees for voluntary funds are increased, it should be communicated 6 months in advance, and for occupational pension schemes the modification and communication should be performed according to the scheme, with notification to FSA
▪ Prospectus authorisation and amendment procedures for occupational funds will be provided by FSA rules (the law stipulates that the prospectus shall be authorised and modifications shall be notified; the modification shall be performed by the employer, without consulting participants);
▪ Occupational funds are excepted from the provisions on publicity and marketing;
▪ Introduce specific identification, namely the obligation that the title of the fund should reflect its nature, namely voluntary/voluntary occupational and should indicate that the fund headquarters is the same with the administrators' headquarters;
▪ Participants in the occupational funds may be informed by the employer (according to the administration contract);
▪ It introduced conditions establishing the eligibility of participants in the occupational fund, namely the quality of employee of the employer who proposed the scheme;
▪ It introduced a section with specific provisions for the participants in occupational funds.

Amendment of provisions applicable to entities regulated, authorised and supervised pursuant to Law no. 204/2006 which need clarity and transparency in enforcement:
▪ Rephrase the article on the organisational structure of the administrator so as to include – internal audit, internal control, risk management and investment;
▪ Introduce provisions on activities which may not be outsourced. Activities which may be outsourced – liaison with third parties, development, presentation, submission, publication and distribution of annual reports, document management and archiving;
▪ Introduce provisions on administrators merger (from rules to law) – the possibility, instead of obligation to perform funds merger with the administrators' merger, the ban on mergers between two or more administrators resulting in the administration of assets exceeding 40% of the net total assets in the voluntary pension market
▪ Repeal the provisions on administrator's investments;
▪ Eliminate investment limits for pension funds, with a possibility for FSA to introduce temporarily thresholds, if they appreciate it is necessary;
▪ Introduce in the scope of fund incomes the amounts unclaimed in the general prescription term, amounts refused by beneficiaries and the administrator's contribution when they have to cover from own resources the profitability difference of the fund below minimum profitability
▪ Modify the period within which FSA should announce participants on the need to choose a new administrator, or on initiating special administration or introducing the notion of income assimilated to salary;
▪ Eliminate the 15% share as maximum allowed to contribute to voluntary pension funds and monthly payments;
▪ Modify the cumulative conditions for claiming the asset payment, namely when the participant retires from the public system, contribution period of at least 7.5 years;
▪ Annual information of participants involuntary funds may also be submitted by electronic communication means.

What next?

Continuing the updating of the secondary legislation to ensure the proper functioning of the private pension system, including the package of rules needed to create a legal framework for the use of biometric signatures.

Continueing the monitoring of the maintenance of the level of corporate governance quality in the management of private pension managers according to the requirements of the legal provisions in force..

Authorization/Approval activity

FSA contributes to the creation of an integrated functioning and supervisory framework for the private pension market, by ensuring an efficient functioning of the private pension system and by protecting the interests of the participants beneficiaries.

In this context, the authorization / approval activity has been one of the essential elements of the private pension system since the beginning of the functioning of the private pension market as it is the main filter in accessing the private pension market for entities and individuals who want to operate in field.

The FSA Board approves the requests for authorization / approval for entities and individuals operating in the field of private pensions in Romania and the changes to the documents and conditions underlying the initial authorization / approval.

In 2015, FSA withdrew the authorisation of the Private Pension Fund EUREKO, the private pension prospectus for the Voluntary Pension Fund EUREKO, and the authorization to manage a private pension fund for EUREKO – SAPFP SA, following the merger of the Voluntary Pension Fund EUREKO CONFORT (absorbed fund) with the Voluntary Pension Fund AEGON ESENȚIAL (absorbing fund).

Due to the changes in the top management of private pension administrators, to the FSA requirements on the corporate governance principles of administrators and to the *fit & proper* concept, 9 members of the supervisory board /board of administration, 10 executive managers, 1 person responsible for the risk management structure, 1 person responsible for internal control and 2 investment directors were authorized individually.

In 2016 MAZARS România SRL was authorised for financial audit activities for entities authorized, regulated and supervised by the FSA in the private pension system.

Due to the strengthening of the private pension market, considering the high percentage of randomly distributed participants in the private pension funds, 2016 maintained an increasing trend in withdrawn authorisations, compared to the authorisations/reauthorisations of marketing agents – natural persons.

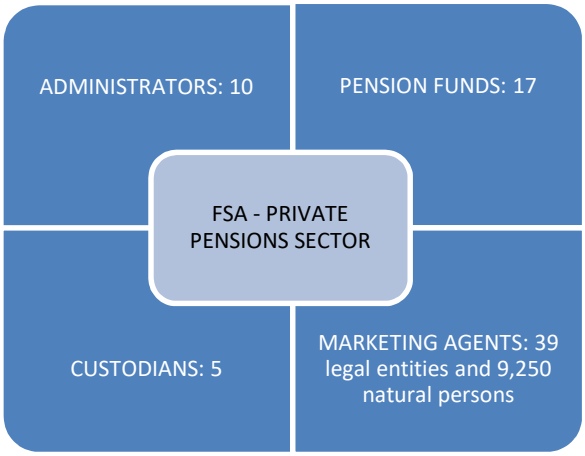
FSA has permanently updated the **Registry of Entities and Individuals Authorized / Approved / Radiated in the Private Pensions System.** It is constituted and structured on Pillar II and Pillar III, and includes entities such as administrators, private pension funds, depositories, financial auditors and marketing agents (legal and natural persons). The public part of the Registry is permanently available for consultation on the FSA website.

Through authorization/approval of entities on the basis of rigorous conditions imposed by primary and secondary legislation, the premises of a sound management at the level of entities in the private pension system and a fair and prudent management of the assets of private pension funds in Romania are ensured. Furthermore, this activity is a part of the mechanism created to ensure the fulfilment of the main mission of FSA, namely protecting the interests of the participants and the beneficiaries from the private pension system.

At the same time, by exercising the authorization / approval function in the private pension system, the alignment with the requirements of the acquis communautaire, but also with the best internationally recognized practices, namely the maintaining the high standards of the corporate governance in the private pension system, as well as permanently maintaining the requirements of the *fit & proper* concept for entities operating on the private pensions market.

Supervision of private pension system

The private pension system in Romania started in 2007, when the first contributions to voluntary pension funds were collected. Subsequently, once the initial accession process was completed in 2008, the compulsory pensions pillar was also started. Thus, with 7.21 million participants, at 31 December 2016 the private pension system registered total assets amounting to 32.99 billion lei (7.26 billion euros), which represented 4.35% of the GDP, compared to 3.64% in December 2015.



Entities subject to permanent supervision are the pension funds administrators, custodians and marketing agents. During the nine years of operation, the number of administrators has been decreasing, both due to the exit from the market of managers who have not attracted enough fund participants, as well as to the fund mergers. On December 31, 2016, under Pillar II there were 7 authorized companies, managing 7 privately administered pension funds.

Under Pillar III, expectations regarding the market potential have led to an increase in the number of participating entities by 2010. Subsequently, as a result of mergers, their number decreased to 8 administrators, managing 10 voluntary pension funds.

The custodians of private pension funds are credit institutions in Romania authorized by the National Bank of Romania, according to the banking legislation, or branches from Romania of credit institutions authorized in other Member States of the European Union or states of the European Economic Area, licensed to act as custodians, pursuant to law; custodians are trusted with all assets of the private pension funds for safekeeping.

PILLLAR II	• BANCA COMERCIALĂ ROMANĂ SA • BRD - GROUPE SOCIETE GENERALE SA • RAIFFEISEN BANK SA • UNICREDIT BANK SA
PILLAR III	• BRD - GROUPE SOCIETE GENERALE SA • BANCA COMERCIALĂ ROMANĂ SA • BANCPOST SA

Custodians have an active role in the supervision process, as they check the investment activities carried out by administrators, and have the obligation to report to FSA on any suspicion of breaches of the applicable legal framework.

Off-site and on-site oversight is the control of the entities carried out a) by monitoring and analysing all information received by FSA through mandatory reporting, but also by any other means such as media, b)inspection missions performed at the premises of the supervised entities.

Main strategic objectives of the supervisory and inspection activities in 2016

Improvements in the reporting and off-site monitoring process

An important element for a more efficient off-site supervision activity and for improving prudentiality, mainly the capacity of early identification of potential problems and of assisting with their analysis and correction before they have a significant impact on the interests of participants and beneficiaries is the optimization of the reporting process of entities in the private pension system. In these circumstances, particular attention was paid to the reporting process, the verification of data and information submitted, and to the improvement of the quality of the analyses and syntheses developed, with the aim of increasing relevance and accuracy.

The records of private pension funds, as well as of administrators and depositories of private pension funds were permanently updated in order to provide a complete picture of authorized and supervised entities in the private pension system. It should be noted that the administrators' records included information on the management system, members of the representative structures and persons responsible for different activities and authorized by the Authority and the sanctions applied and / or the plans of measures ordered as a result of the inspection actions, required by the FSA to remedy and prevent errors.

Solutions were provided for operational problems for which the Authority requested points of view and action plans to correct the problems identified, including corrective measures, such as: warning or, as appropriate, sanctions. Continuous prudential supervision focused on strengthening reporting discipline, monitoring deviations from investment limits, monitoring the allocation of the risk category, the profitability rate of private pension funds and ensuring permanent and correct information of participants.

Analyses and impact studies have also been carried out and the monitoring of private pension fund exposures has been intensified, taking into account the economic and political events, such as the UK referendum. Other analyses focused on the participation of pension funds in the secondary public sale of shares of Med Life.

The supervision activity has also materialized in analysing the evolution of the number of private pension fund participants, tracking the behaviour of contributions: monthly paid contributions, individual accounts without contributions, average contribution. Another analysis focused on the notifications of administrators and marketing agents, legal entities, regarding the infringements of marketing agents, natural persons, and on the measures disposed to correct them[1].

[1] Examples: delayed submission of individual adhesion documents, exceeding the legal deadline, failure to observe the legal deadline for notification and submission to administrators of copies of amended documents initially submitted for endorsement as marketing agent, transfer of participants' contributions on their behalf, suspicions on the actual willingness to act of participants, drafting individual adhesion documents by marketing agents whose authorisation was no longer valid.

Actuarial activity

In 2016, the primary data necessary for the actuarial calculation of the technical provisions were processed (registered and checked).

Private pension funds administrators – technical provision and assets on 31 December 2016 (bill. lei)

Administrators	Aegon	Allianz	BCR	BRD	Certinvest	Generali	NN Pensii	NN Asigurări	Metropolitan	SAI RAM
Technical provision	5.92	28.42	10.38	3.02	-	5.94	25.92	5.27	17.84	-
TP Assets	5.98	28.65	17.15	3.05	-	6.85	27.49	5.36	22.44	-
Provision coverage	100.99%	100.82%	165.24%	101.01%	-	115.28%	106.06%	101.65%	125.76%	-

Privately administered pension funds – technical provision and corresponding assets (lei)

PRIVATELY ADMINISTERED PENSION FUND	Necessary technical provision	Value of assets corresponding to the technical provision on 31.12.2016	Accumulated percentage
PAFP ARIPI	34,831,536	6,845,779	20%
PAFP AZT VIITORUL TĂU	85,541,493	28,649,794	33%
PAFP BCR	20,752,219	17,145,623	83%
PAFP BRD	17,989,033	3,050,086	17%
PAFP METROPOLITAN LIFE	53,735,509	22,436,129	42%
PAFP NN	125,972,087	27,492,878	22%
PAFP VITAL	42,338,464	5,980,619	14%

For the actuarial evaluation of voluntary pension funds which provide guarantees in the pension scheme's prospectus, based on the data base of voluntary pension funds, the following values were determined for each participant: current guaranteed value, current contribution, future contributions up to retirement, the amount guaranteed up to retirement, the evolution of the value of the personal assets up to retirement, the total payment obligation, i.e. the guaranteed amount, compared to the value of the accumulated asset related to this obligation (the sum of personal assets generating liabilities).

Also, the comparative evolution of the total assets and the total guaranteed value for each voluntary pension fund was analysed and the current average values of the main indicators, the future commission fees received by the administrators based on current portfolio of participants, as well as the determination of the technical provisions corresponding to each voluntary pension fund.

In parallel, the actuarial reports submitted by the administrators of privately managed pension funds were analysed and a report of the technical provision values was made for the period 2013-2016.

Analyses of the private pension market entities' reports on the internal assessment of operational risks and e-reporting indicators have also been carried out.

Another analysis carried out in 2016 was the stress test on the private pension system assets in order to determine the possible impact on the value of assets in the portfolios of private pension funds based on the EIOPA scenario („IORPs Stress Test Report 2015").

Private pension's inspection system

The inspection of entities in the private pension sector has the role to prevent or correct situations which might damage or which damaged the interests of the participants and beneficiaries in the private pension funds.

The planned inspection actions for 2016 have been part of the general institutional objectives: to protect the interests of the participants and beneficiaries in private pension funds, to protect the stability of the private pension system and to strengthen and protect the stability of the financial system as a whole.

They referred mainly to the following issues:

- ⇒ Checking the way in which the corporate governance system and internal control system of each inspected entity work, in order to identify the policies and procedures of these entities and analyse the effective use of tools and means to identify, manage and mitigate risks
- ⇒ Checking and evaluating the activities of the private pension system, by analysing the nature, cause, impact, remediation and / or diminution, as well as the form of the related risks, in order to ensure an efficient functioning
- ⇒ Follow the way in which the investment strategy adopted by each private pension fund is applied
- ⇒ Checking the way in which the technical provisions are established and maintained at an appropriate level, including the checking of the existence of assets covering the technical provisions
- ⇒ Degree of suitability and automation of information systems in relation to the volume and complexity of the carried-out activities

In 2016, 13 periodic inspection actions were scheduled, which were fully carried out according to the approved planning. In addition to the planned periodic inspection actions, 4 thematic on the spot inspections were carried out at SE FOND Broker De Pensii Private SRL, Generali Societate de Administrare a Fondurilor de Pensii Private SA, BRD - Societe Generale SA as depository of the assets of private pension funds and Enteka Broker de Pensii Private SRL, which aimed at verifying, by sampling, the activity of marketing private pension funds (pillar II and pillar III) carried out by the broker.

The main objectives of the inspection team were to identify deviations from the current legislation and to remedy them immediately as well as to identify processes that can be improved.

The inspection team has not identified cases of entities which were recommended to implement remedial measures did not comply with the recommendations included in the Decisions of the FSA Council.

As a result of the inspection actions carried out, no risks were identified that would significantly affect the short-term activity of the companies and, implicitly, the private pension system. However, the identified risks may have a negative long-term impact, requiring a reassessment of the processes carried out by the inspected entities. The incidence of operational risks and compliance risks was relevant.

Main risks identified in the inspection actions

Scope	Types of identified risks	Factors contributing to creșterea riscurilor
Corporate governance. Participants' adhesion and registration. Operations regarding participants. Investments and evaluation of assets IT system. Setting the technical provision. Reporting and transparency obligations.	Compliance risks. Operational risks. Reputational risks.	Human error, mainly as a result of manual operations. Insufficient development of IT systems. Lack of an efficient internal control system.

Sanctions applied in 2016

	Company	Person	Total
ON-SITE, **out of which written warnings and corrective measures for the identified deficiencies**	7	2*	**9**

In 2016, as a result of off-site and on-site activity, 9 sanctions were applied.

* persons performing the internal control function.

Supervision activity improvement

- **Transparency of information on the private pensions system**
- **Operational Errors Registry**
- **Automating the reporting of entities in the private pensions system**
- **Matrix of sanctions**

In 2016, FSA developed a series of projects aimed at improving the regulatory, supervision and inspection activities of entities in the private pension system and streamlining these activities. The object was to maintain a continuous development and self-improvement, in line with the evolution of the private pension system in order to protect the interests of the participants in this system.

Transparency of information on the private pension system

The experience gained from participation in the meetings organized by EIOPA and its working groups, as well as the analysis of studies on the information of participants in private pension schemes, FSA identified several aspects that were considered in the implementation of a new methodology for informing the participants in the private pension system.

In the decision-making process, improved mechanisms for transmitting information in a standardized and comparable way can improve the decisions of participants in private pension schemes to the extent that they have to make such decisions and may increase the awareness of participants on the importance of the private pension system.

Information in the private pension system

Information must be clear, layered, comprehensible, attractive, of low complexity, must facilitate financial decisions, identify risks and methods to reduce the risks, be standardized and comparable.

Information reaches its goal when they respond to the main concerns of participants in private pension schemes and potential participants in an attractive way that can be easily understood.

It is necessary to formulate a coherent communication strategy which is subject to a regular assessment.

FSA has proposed a new model of transparency designed especially for participants and beneficiaries of private pension funds in Romania. Through this interactive and visually attractive model, participants and potential participants are invited to discover the answers to the main questions they might have about the private pension system.

The stratification of information from less complex to more complex and the presentation of the main benefits of the system are aimed at encouraging participation in the system and at preserving an active presence.

This means of communication is in the scope of the tendency of communicating with the participants in the electronic environment, of tailoring the information and the provided details and of structuring the information around the areas of concrete interest, which characterizes most of the European states.

Conclusions

Main aspects that need improvement:

Simplicity and relevance

The transparency of the system itself cannot lead to a good understanding or to the best decisions made by a participant or a potential participant, although the amount of information the participant has access to is overwhelming.

Interactivity and connection

The provided information must determine the understanding of the content, and in order to be able to do that it must get the participant's attention, stimulate the participant to discover the facilities made available and involve the participant in the process of discovering the system.

Involvement and attractiveness

Awareness of the importance of private pensions is one of the key issues that private pension system entities want to communicate to participants, and in particular to potential participants in private pension funds. An effective communication and information scheme can increase the attractiveness of the private pension system.

Personal communication and awareness

In order to increase the level of involvement of participants or potential participants and to make them aware of the importance of this aspect for their future, the messages sent can increase their impact by becoming more personal.

Financial education

In order for a participant / potential participant to make a decision, he / she must be properly informed and understand the consequences of his / her decision. In order to understand the information presented, a certain degree of financial education is necessary.

Operational errors registry

The main objectives of the project were the identification of operational errors, their centralization in optimized time and an easier processing of data. It also sought to provide as much relevant information as possible for the private pension directions and to identify areas of legislation that should be amended or improved in order to quantify operational risk.

Although the registry centralizes information about past events, their permanent analysis provides the opportunity to identify the most common errors in the management activity, thus becoming a surveillance tool with a preventive role.

The project has set up an alert system to identify areas of high-risk activity as well as to early identify risk areas and to remedy deficiencies found in the activity of private pension fund managers.

The Operational Errors Registry also aims at assessing the behaviour of the administrator and of the responsible persons.

The Operational Errors Registry is designed to provide mechanisms for streamlining the supervisory activity, one of the key tasks the Financial Supervisory Authority has been entrusted which, by adopting the necessary operational changes in the transition from compliance supervision to risk-based supervision.

Automation of reporting of entities in the private pension system

The automation of the reporting of entities in the private pension system has as its main objective the automation of the processing of reported information in the FSA's IT system - the Private Pension System Sector, for the detection of errors and risks in an optimized time and the easy data processing.

The project aimed at improving the processing of data reported by private pension system entities, through reports, alerts and checks (both in terms of format and content) as well as at obtaining automated messages sent to reporting entities when they post files which are drawn up incorrectly. In 2016 the first 3 modules were implemented, and in the next stage of the project, module 4 will be implemented.

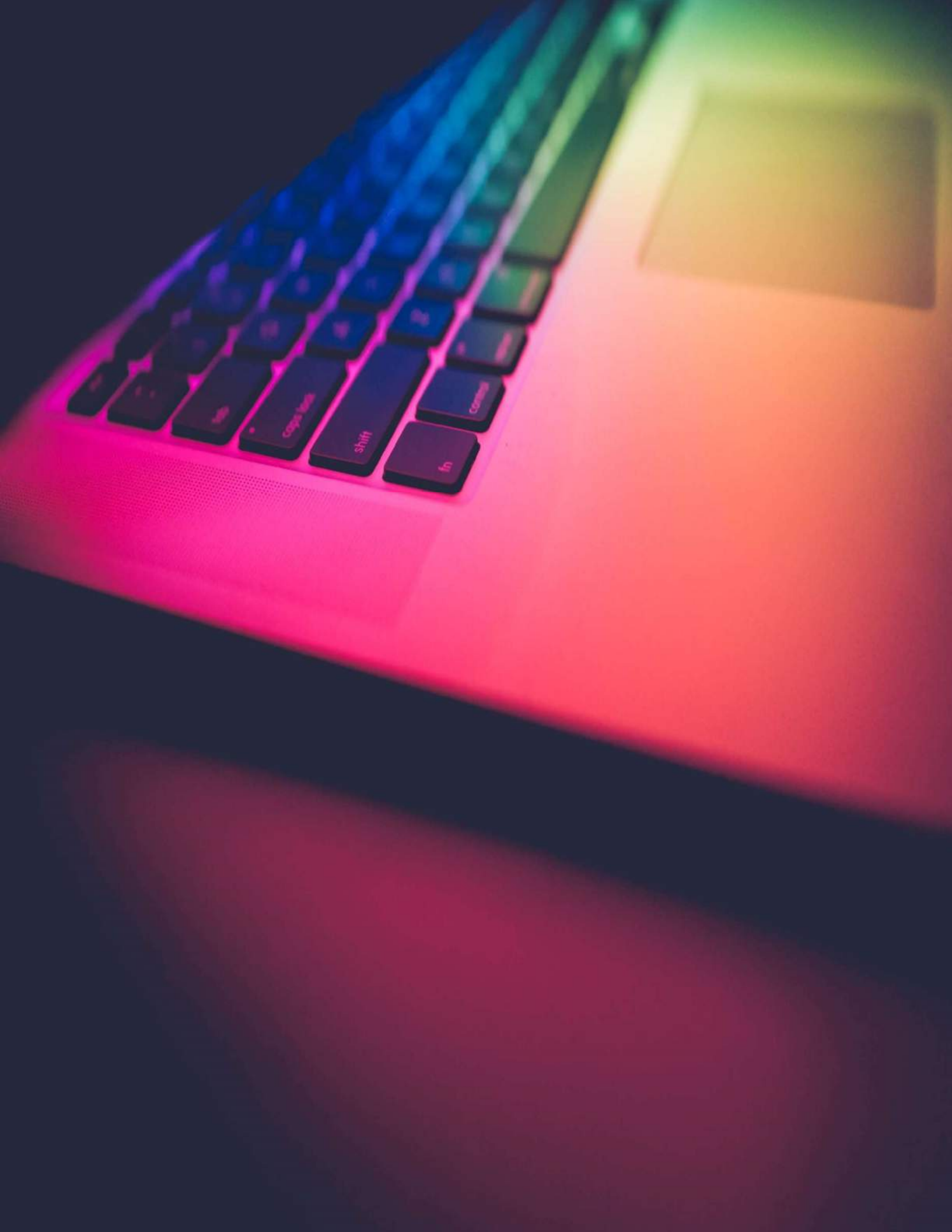
Matrix of sanctions

In assessing failures to comply with the legal framework, it was considered necessary to define a pyramid of measures that can be applied at the level of the authority, based on remedial measures and escalating with recovery measures (special supervision) and administrative measures (from warnings, contraventions and / or withdrawal of authorizations and / or special administration).

In order for such an approach to be effective, it was necessary to create a system that allows for the correlation between the degree of non-compliance of supervised entities (nature of the act, impact, repeatability, etc.) with their conduct (transparency, immediate action).

Determinant factors

- Balancing the too lenient approach (which may not sufficiently protect the interests of the participants / beneficiaries and which could undermine the supervisor's authority and lead to wide dissatisfaction if the supervisor decides to apply tougher sanctions) with a way too strict approach (which can be too costly for the entities involved in the private pension system, often considered unfair by them and which would not add value to the private pension system as a whole).
- The decision-making mechanism of sanction which takes into account as many factors which determined the nature of the deed, impact, circumstances (attenuating / aggravating) repeatability.
- Mapping the activity of entities involved in the private pension scheme (both in terms of actions committed) to identify the risk areas in their work in order to determine the areas of legislation that need to be updated / can be improved, as well as to implement a history of the conduct of supervised entities and their representatives.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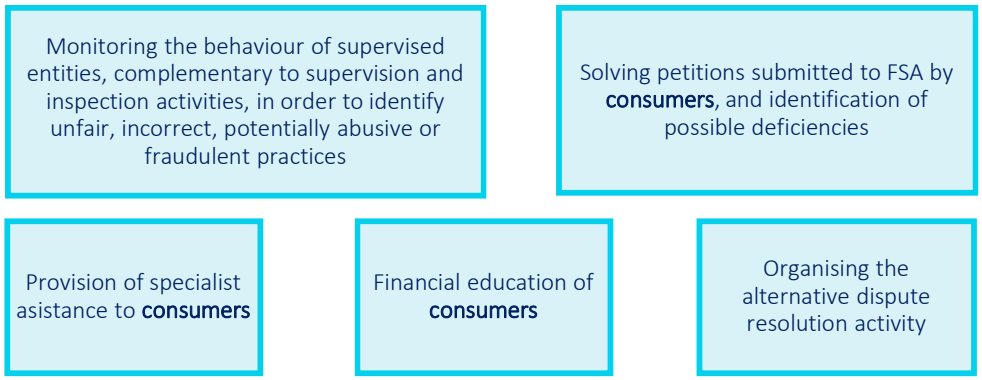
COMMON POLICIES

Consumer protection

FSA protects and safeguards the rights of consumers of non-bank financial services and products (policyholders, insurance beneficiaries and victims, participants and beneficiaries of private pensions, investors) against unfair and fraudulent practices:



FSA further supported **interaction with insurance creditors** generated by the relationship with ASTRA, and with those generated by relationships with Forte Asigurări and Carpatica Asig (call-centre, Facebook, guides, petitions). The **Advisory Group for Ongoing Dialogue** in the field of consumer protection, created by FSA together with consumer protection associations, relevant associations of financial markets, representatives in international groups, and NACP continued to operate this year under FSA coordination.

Also, FSA set up the Alternative Dispute Resolution Entity in the non-banking financial field (**SAL-Fin)** to create the necessary framework for alternative dispute resolution for consumer disputes (Directive 2013/11/EU of the European Parliament) and for the enforcement of GEO no. 38/2015 on alternative dispute resolution of disputes between consumers and traders.

FSA had an active contribution to **European activities** related to consumer protection. FSA participated in the specific activities undertaken by the OECD international working group INFE, and by the international regional working group coordinated by Child&Youth Finance International, both having intense activity in the field of financial education.

2016 marked the consolidation of the activity of the Institute of Financial Studies by supporting FSA activity in the field of regulated occupations, of development of occupational profiles, new professional assessment systems, quality management and assessment of specialist training results.

Monitoring activity

In order to strengthen consumer protection, in 2016 there were numerous monitoring activities which are complementary instruments to regulation and prudential supervision, by approval of specific strategies and tactics. Thus, FSA extended its mystery shopping exercises, testing reactions from the consumer's perspective and requesting behaviour improvements, whenever any deviations were identified. The goal of these exercises was to enhance the quality of the services provided, through a high level of transparency and a better approach of consumer needs. Also, in 2016 FSA commenced an analysis of the contents of insurance contracts to ensure they truly meet the actual needs of the consumers and comply with the legal requirements on consumer rights; this analysis led to the development of various legal amendments whose objective was to strengthen consumer protection.

Qualitative aspects

Quantitative aspects

Petition management

Petitions are solved according to the provisions of Government Ordinance no. 27/2002 regulating petition-solving activities, approved by Law no. 233/2002, and of the applicable legislation in the FSA specialist fields.

Beyond the effective resolution of aspects raised by claimants, the objectives of this activity are to identify deficiencies, provide ongoing monitoring of deficiencies at the level of supervised and/or regulated entity, and to analyse the systemic nature of such deficiencies at market level, to establish the necessary remedial measures. Also, in the answers communicated to claimants, FSA provides specialist assistance with regard to the legal/contract regulations applicable in the case and recommends claimants the procedural steps they should take for solving the aspects signalled.

The activity of petition investigation and resolution undertaken in 2016 identified certain deficiencies/practices in the activity of entities, therefore notifications and reports were drafted and submitted to sectors of activity, to FSA Board or to other competent authorities. In 2016, FSA registered a total number of **16,919 petitions**, **a decrease by 5.50%** compared to 2015.

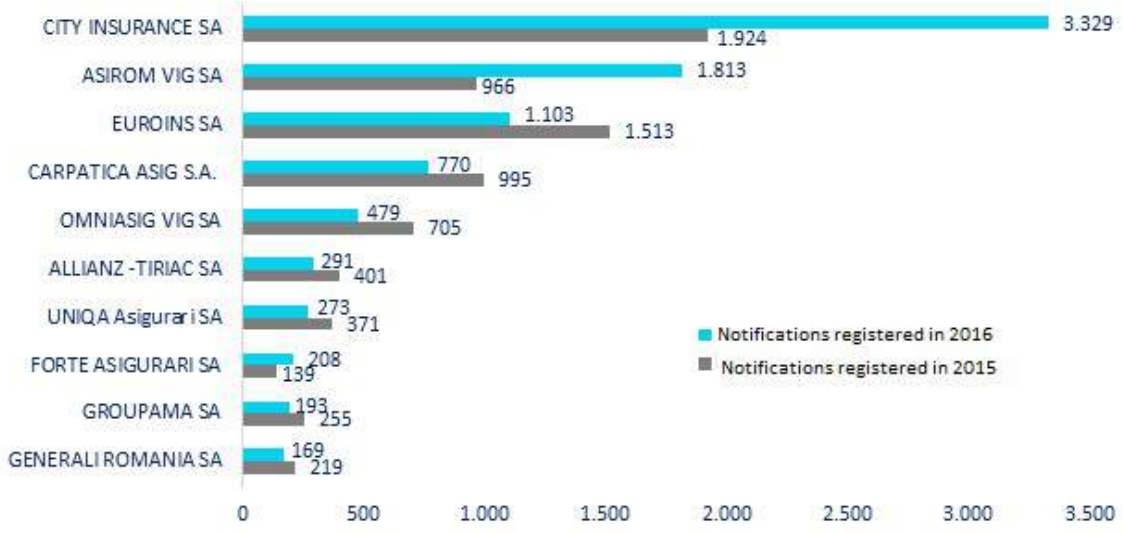
Petitions registered with FSA in 2016 compared to 2015

No.	Market	Total petitions registered in 2015	% of total petitions in 2015	Total petitions registered in 2016	% of total petitions in 2016	Increase / decrease in 2016 compared to 2015
1	Insurance - Reinsurance	15,890	88.75%	15,419	91.13%	-2.96%
2	Private Pensions	1256	7.02%	1,125	6.65%	-10.43%
3	Financial instruments and investments	758	4.23%	375	2.22%	-50.53%
	Total	**17,904**	**100.00%**	**16,919**	**100.00%**	**-5.50%**

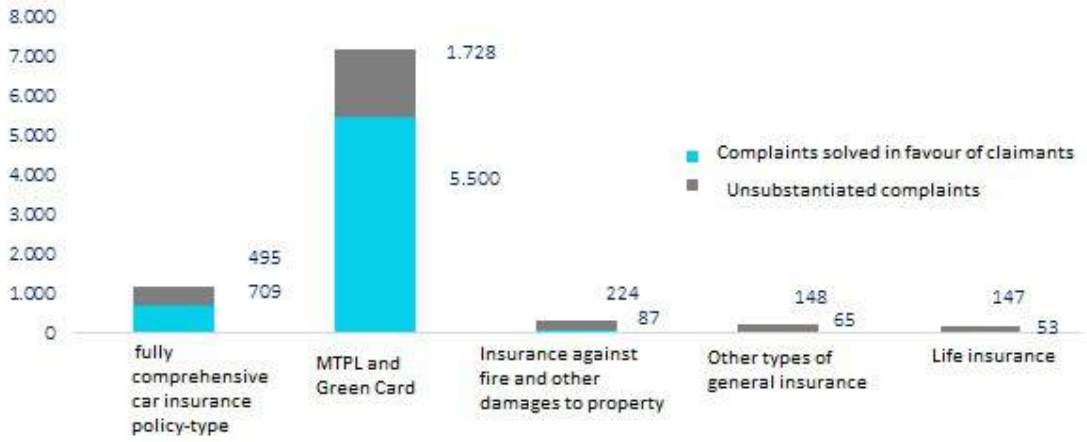
Insurance – Reinsurance market

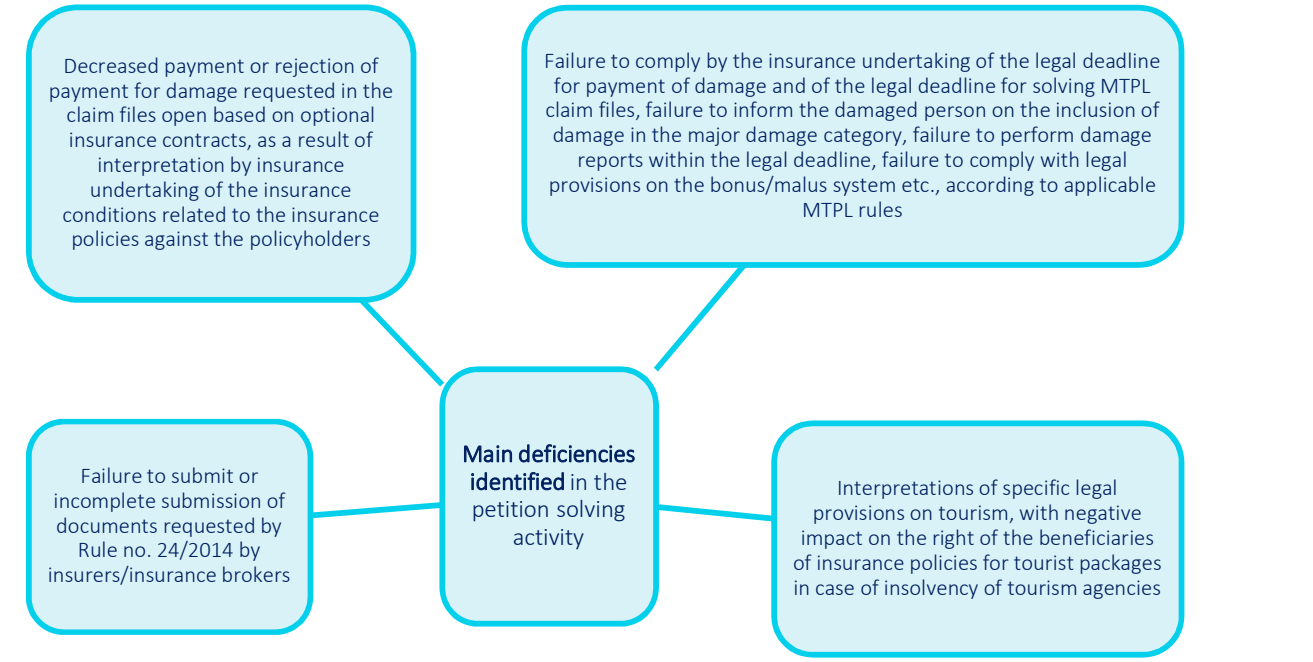
- **A total number of 15,419 petitions were received, a decrease by 2.96% compared to 2015;**
- **9,156 petitions submitted by policyholders/victims were registered and analysed individually**, a decrease by 1.38% compared to 2015; **99.29%** were petitions against insurance companies;
- **80.22%** of the claimants claimed non-payment/partial payment of damage/redemption values;
- petitions under the general insurance category **account for 97.82%** of the total**,** a decrese by 1.79% compared to 2015;
- petitions under the compulsory civil liability insurance category (7.228) account for about 0.12% of the MTPL contracts concluded (5,804,326) and for 2.60% of the number of MTPL claim files opened this semester (278,093);
- **6,414 petitions (70.05%** of total) were solved in favour of the complainants, as their requests were legitimate and had a legal framework to be solved. Of them, 68.30% were finalised by payment of damage/compensation requested by complainants in the claim files opened;
- **three insurance undertakings registered increased numbers of petitions in** 2016 compared to 2015: Asirom VIG SA (+87.68%), City Insurance SA (+73.02%) and Forte Asigurare-Reasigurare SA (6 months of activity) (+49.64%);
- petitions registered under compulsory civil liability insurance MTPL and Green Card category account for **78.94% of total,** an increase by 7.22% compared to 2015;

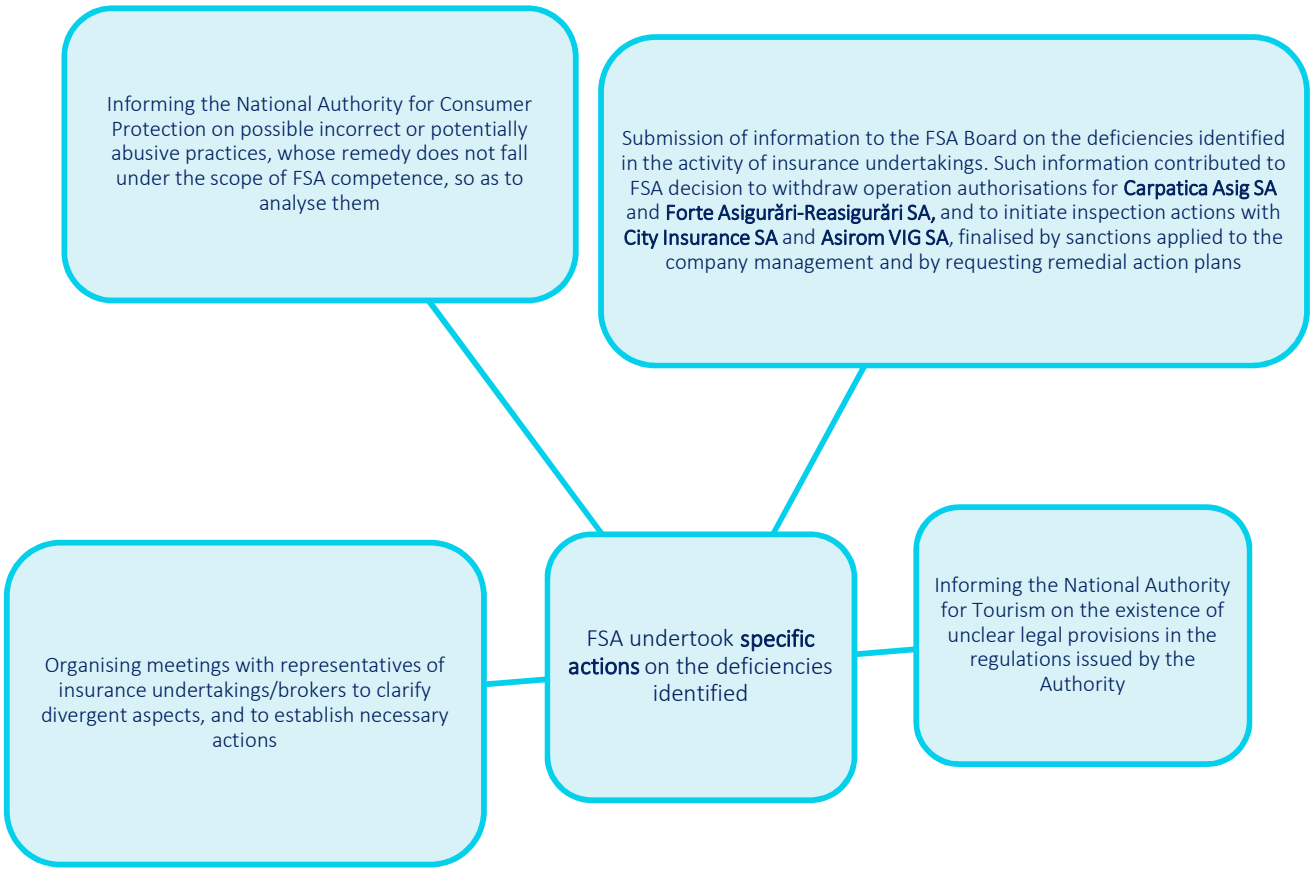
Petitions in the insurance-reinsurance sector in 2016 compared to 2015



Types of solutions, by category of insurance




Decreased payment or rejection of payment for damage requested in the claim files open based on optional insurance contracts, as a result of interpretation by insurance undertaking of the insurance conditions related to the insurance policies against the policyholders
Failure to comply by the insurance undertaking of the legal deadline for payment of damage and of the legal deadline for solving MTPL claim files, failure to inform the damaged person on the inclusion of damage in the major damage category, failure to perform damage reports within the legal deadline, failure to comply with legal provisions on the bonus/malus system etc., according to applicable MTPL rules
Failure to submit or incomplete submission of documents requested by Rule no. 24/2014 by insurers/insurance brokers
Main deficiencies identified in the petition solving activity
Interpretations of specific legal provisions on tourism, with negative impact on the right of the beneficiaries of insurance policies for tourist packages in case of insolvency of tourism agencies


Informing the National Authority for Consumer Protection on possible incorrect or potentially abusive practices, whose remedy does not fall under the scope of FSA competence, so as to analyse them
Submission of information to the FSA Board on the deficiencies identified in the activity of insurance undertakings. Such information contributed to FSA decision to withdraw operation authorisations for Carpatica Asig SA and Forte Asigurări-Reasigurări SA, and to initiate inspection actions with City Insurance SA and Asirom VIG SA, finalised by sanctions applied to the company management and by requesting remedial action plans
Organising meetings with representatives of insurance undertakings/brokers to clarify divergent aspects, and to establish necessary actions
FSA undertook specific actions on the deficiencies identified
Informing the National Authority for Tourism on the existence of unclear legal provisions in the regulations issued by the Authority

In 2016, besides petition investigation ad resolution activities, **FSA initiated a vast monitoring process of the policyholders-insurer relationship,** and of the **extent to which insurance products comply with the insurance consumer needs**, a complementary process to the supervision activity designed to bring added-value both to consumer protection and to the financial stability of the insurance market.

Consequently, FSA implemented the following regular analyses:

- Calculation of specific indicators for insurance consumer protection activities (Indicator petitions/contracts- Ip/c, Indicator petitions/damages- Ip/d, Indicator favourable petitions/damages- Ifp/d) which, based on the petitions registered with FSA by the supervised entities, enables their classification by compliance leves, in terms of products provided, of entity behaviour in the claim file investigation and resolution activity, of solutions adopted in the claim files, with legal/contract provisions;
- Analysis of compliance with deadlines for payment and for solving claim files opened with insurance undertakings based on MTPL compulsory civil liability insurance policies.

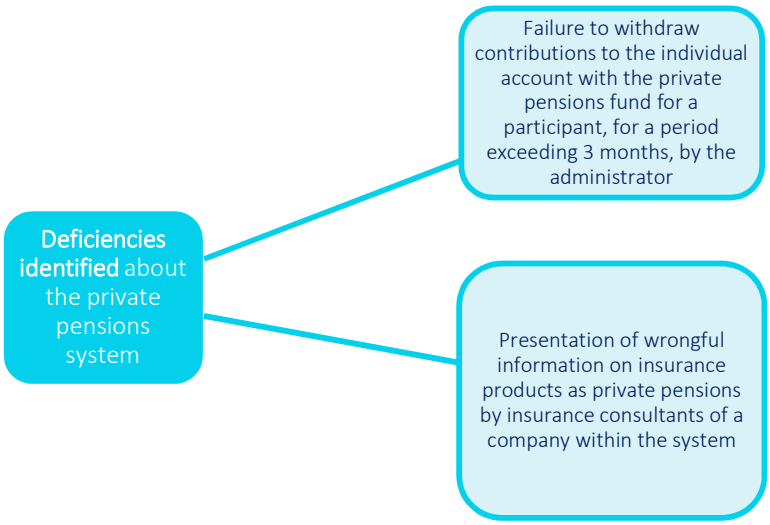
Also, based on the conclusions resulted from the petition solving activity, FSA conducted various analyses and issued recommendations and imposed measures on:

- Insurance products related to mobile phones/tablets – the analysis identified incorrect practices with negative impact on consumers;
- Insurers' behaviour and practices in solving MTPL and CASCO claim files, and claim files related to life insurance policies attached to loan contracts;
- The conclusions resulted from the analysis on car insurance activities indicated the need to develop a Best Practice Guide on the investigation and resolution of claim files MTPL and CASCO, which was approved by the FSA Board to be launched for public consultation.

Due to the legal amendments adopted for the MTPL market, there is a need to adapt it to the new regulations, by developing recommendations on MTPL for insurance undertakings and by developing a specific guide for the CASCO insurance segment.

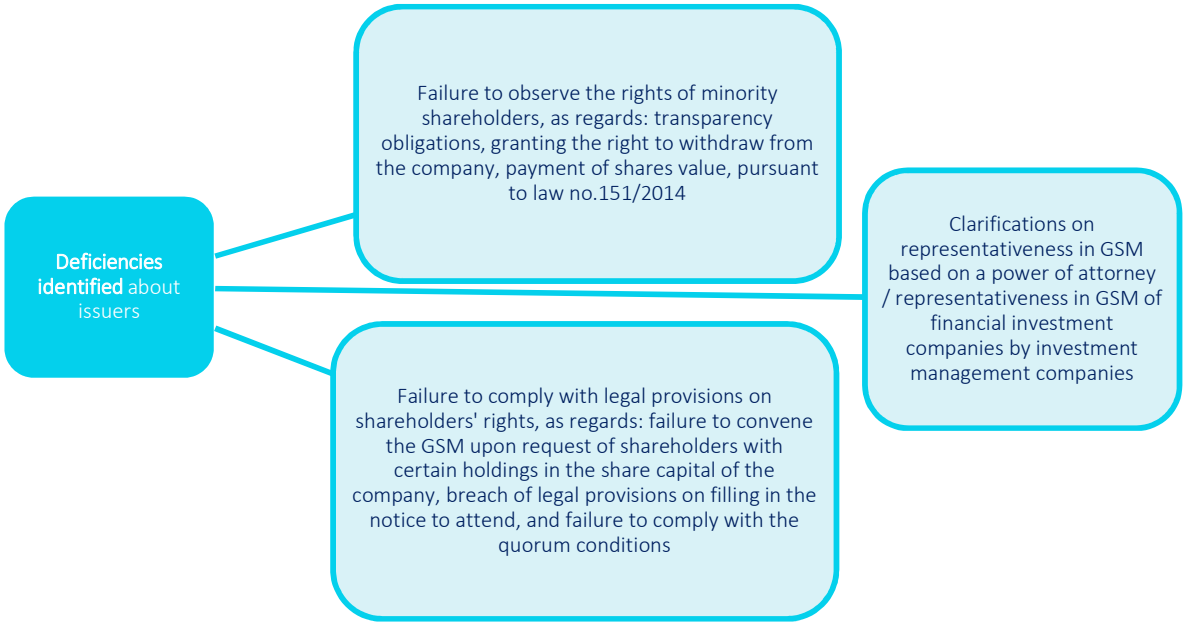
Private pensions market

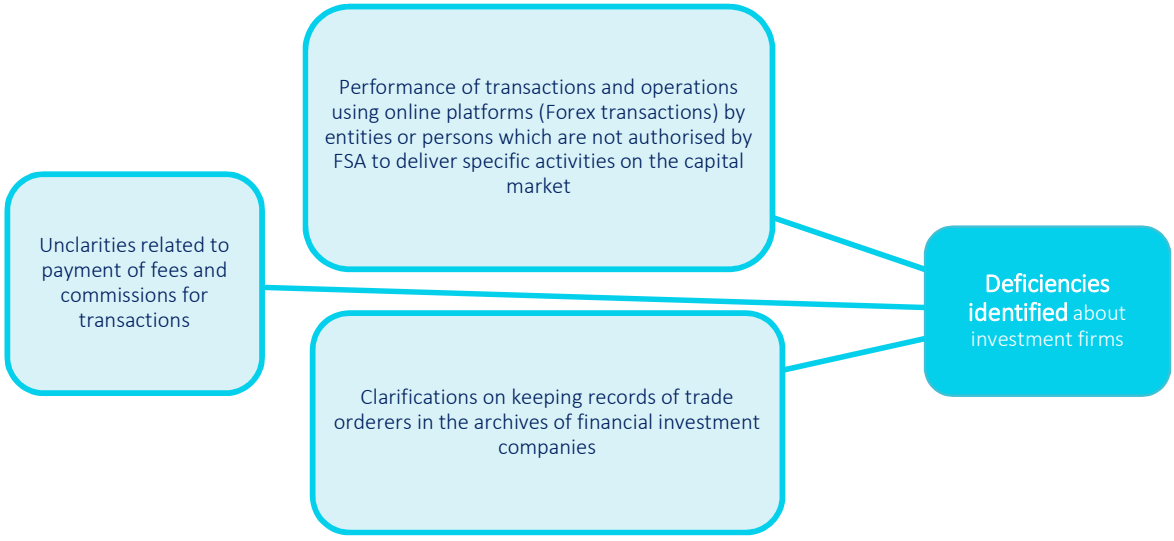
- **A total number of 1,125 petitions were received,** a decrease by 10.43% compared to 2015;
- **1,087 petitions** were investigated/solved individually by claimant;
- **1,013 (93.19 %)** were requests for information, and **74 (6.81%)** of the petitions required investigation to solve the aspects indicated, of which 29 were solved in favour of claimants;
- **92.27%** of the petitions were related to **Pillar II**, and 2.94% to the voluntary pensions fund **(Pillar III).**



Financial instruments and investments market

- **A total number of 375 petitions were received,** a decrease by 50.53% compared to 2015;
- **331 petitions were solved individually by claimant,** a decrease by 54.03% compared to 2015;
- According to the entities claimed against, the largest number of petitions was registered for **issuers - 183** (55.29%), a decrease by 65.99% compared to 2015;
- According to the type of operations claimed against by claimants, the largest number of petitions (**35.95%)** requested the **verification of holdings of shares/sales without agreement/dividend.**





In order to support shareholders who submitted notifications related to certain valuation reports drafted on valuation of shares, FSA submitted those reports to ANEVAR to provide a specialist opinion on them and imposed companies whose transferable securities were traded on the RASDAQ market the obligation to re-draft the valuation reports used to set the price for shareholders' withdrawal from the company.

Public Relations activity

The public relations activity included:

Provision of specialist assistance to clarify consumer requests, and facilitate their non-discriminatory access to active systems for solving applications, requests for information and petitions, including by consumer identification by level of knowledge and expertise in the field, information on risks they may be exposed to in case of choice of financial products beyond their knowledge and expertise and advice for adopting investment decisions only when they understand the risks related to such decisions and may support financially any possible losses;

Identification of possible irregularities/breaches of applicable legislation, at risk to extend and generate petitions, and prompt action to prevent them;

Management of exceptional situations in the cases of ASTRA, FORTE and CARPATICA – individual centralisation of calls with mentioned subjects, cooperation with FGA to solve aspects presented by consumers;

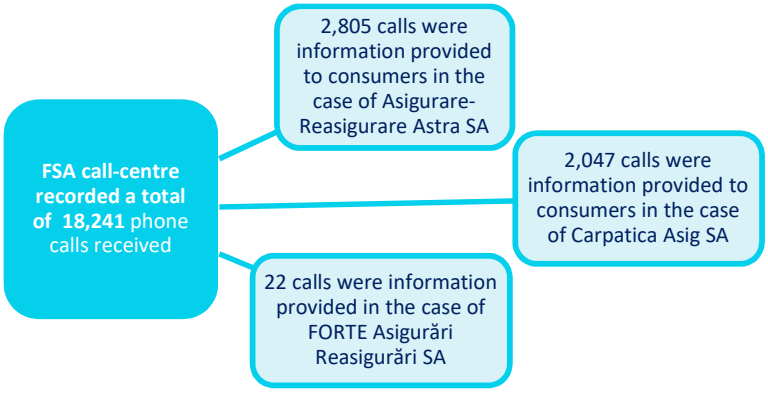
Ongoing supervision of privately managed pension funds managers with regard to the status of requests of non-bank financial products consumers, participants in the privately managed pension system – Pillar II, to solve aspects presented by consumers, using the application: "Find out your pension fund!". Using this application which includes an automated web service, 4,806 participants were contacted directly by the private funds manager;

Starting with 14 July 2016, it has been available a new modern call-centre which enables efficient management of calls from consumers. This system improves the consumer wait time, prioritizes the call by area of interest and provides easy access to information;

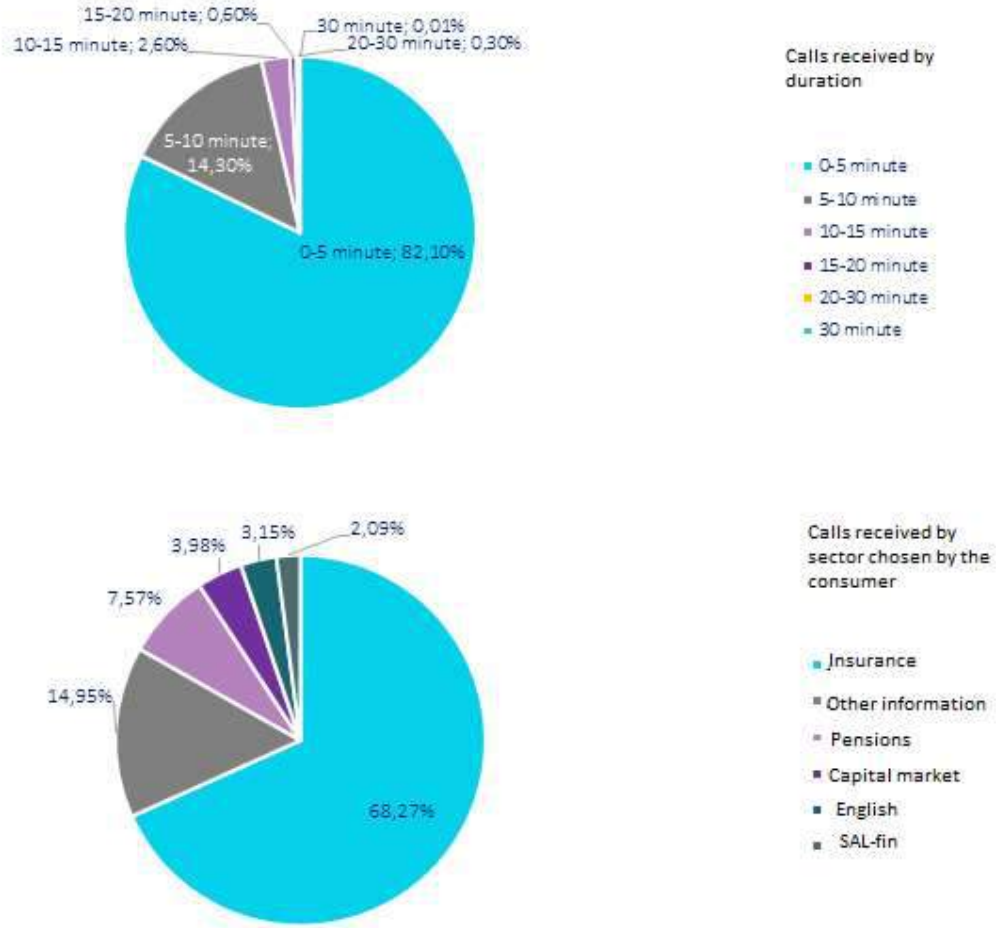
Implementation of the Net Promoter Score system (NPS) - a management instrument which may be better used to measure consumer loyalty, and is an alternative to the traditional consumer satisfaction survey. This may be evaluated on an 11-point scale, ranging from 0 (dissatisfied consumers) to 10 (very satisfied consumers). **In 2016, FSA Call Centre obtained a score of 93.3% satisfied consumers.**

The Technical Secretariat SAL-Fin (officially commenced activity within FSA on 19 July 2016) undertook complex activities, of which we mention:

- Checking the eligibility conditions for persons who presented applications to be registered with the Register of Conciliators – 40 applications, drafting proposals submitted for approval to the FSA Board for the registration of eligible conciliators with the Register of Conciliators, which led to the registration of 26 conciliators;
- Assistance provided to parties to select SAL-Fin procedures, on demand - more than 1,000 requests;
- Website management (www.salfin.ro), permanent website update, allowing easy access of the parties to information on the ADR procedures implemented and supporting online dispute resolution. The webpage – salfin.ro had more than 9,000 hits and more than 40 subscribers for the newsletter;
- Number of disputes received and registered, and the type of complaints involved: 36 disputes only in the insurance field, of which: 65% MTPL, 15% CASCO, 10% PAID 10% Non-Life and Life;
- The average dispute resolution duration is 30 days from the appointment of a conciliator and receipt of all documents, both for the PPS and the PIS procedures;
- Percentage of ADR procedures interrupted and the cause of interruption: 20% procedures interrupted due to the following reasons: execution of payments by traders and conciliators removal;
- Compliance with ADR procedures results, if known: 100%. So far there have been no appeals against the decisions issued by conciliators.



FSA made 1,376 calls outside the institution. These calls support consumers when they need additional support by phone. As regards the number of missed calls, they account for 2.5% of the total calls received. The average duration of a phone call was 3 minutes and 20 seconds.



In 2016, FSA performed 7 **mystery shopping** exercises: 4 for the insurance-reinsurance sector, one for the financial instruments and investments sector, one for the private pensions sector and one on consumer information on SAL-FIN.

Integrated supervision

In compliance with the objectives and prerogatives vested by law, FSA continued in 2016 to strengthen the integrated framework for the operation and supervision of non-bank financial markets and of participants and operations in these markets.

Among the actions taken for this purpose, we mention the development of a regulatory package aimed at ensuring increased cross-sectoral convergence:

Regulation no. 14/2015 on the assessment and approval of the members of the management structure and of persons holding key functions within the entities regulated by the Financial Supervisory Authority (in force since 01.01.2016);

Regulation no. 2/2016 on the application of the corporate governance principles by the entities authorised, regulated and supervised by FSA;

Regulation no. 3/ 2016 on the applicable criteria and the procedure for the prudential assessment of acquisitions and increase of shareholdings in the entities regulated by the Financial Supervisory Authority;

Rule no. 27/ 2015 on the financial audit of the entities authorised, regulated and supervised by Financial Supervisory Authority;

Rule no. 6/2015 on the management of operational risks arising from the information systems used by the entities regulated, authorised/licensed and/or supervised by the FSA.

These legal provisions are aimed at supporting a more efficient integrated supervisory activity and consist in the implementation of a set of unitary rules to ensure the uniformity of criteria and procedures on the assessment of the appropriateness of the setting up, organisation and operation of companies undertaking activities in the three financial sectors supervised by FSA, according to best European practices.

The entry into force of these integrated legal provisions also removed existing parallelisms and gaps both in the regulatory provisions and in the enforcement rules for each sector. This helped the convergence and uniformity of provisions on governance principles, procedures for the prudential assessment of qualified participations and of acquisitions supervised by FSA, requirements on financial audit and uniform rules on the management of operational risks generated by information systems.

The implementation of these integrated rules, which include the best practices in the field, facilitates the development of joint procedures for the authorisation and supervision of general requirements on the organisation and operation of any entity regulated by FSA and the exchange of information and cooperation with other national and European authorities.

Financial stability

National Committee for Macroprudential Oversight

In 2016, FSA participated in the meetings of the National Committee for Financial Stability (NCFS), which has been in place since 2007 based on voluntary bilateral agreements between the regulatory and supervision authorities in the financial sector and the Ministry of Public Finance. With the entry into force of Law no. 12/2017 on the macroprudential oversight of the national financial system, the National Committee for Macroprudential Oversight (NCMO) was set up, replacing NCFS, and became a macroprudential authority according to the recommendations of the European Systemic Risk Board (ESRB), and the authority appointed according to the CRD and CRR provisions.

The fundamental goal of the Committee is to safeguard financial stability by enhancing financial system resilience to shocks and by containing the build-up of systemic risks.

In exercising its duties, NCMO shall be able to issue recommendations and warnings to NBR, FSA and the Government to maintain financial stability, subject to the "comply or explain" regime.

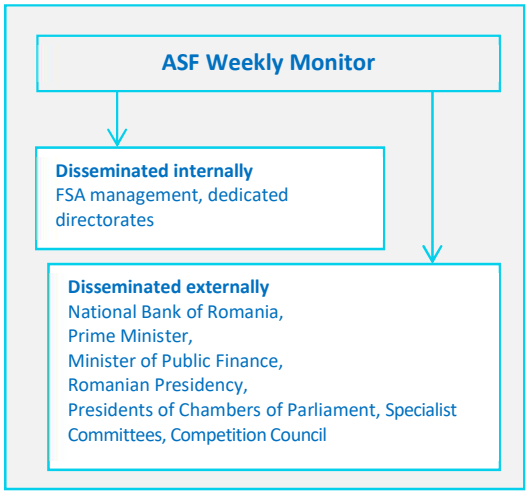
NCMO shall be managed by a General Board which shall convene at least 4 times a year and shall consist in 9 members, of which 3 representatives of FSA: the president and the first vice president of FSA, as well as a vice president appointed by the FSA Board. The chairman of NCMO is the governor of NBR, and its organisational structure includes two technical commissions and an advisory scientific committee, whose membership shall be established by the General Board.

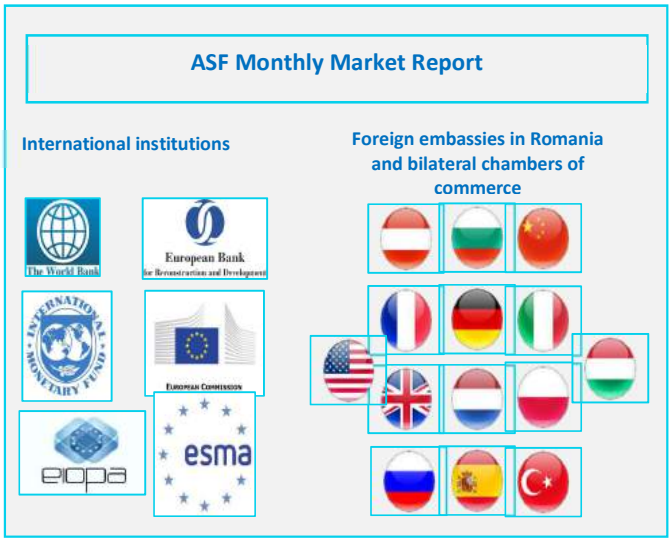
Monitoring trends, risks and vulnerabilities

In order to bring added-value in exercising its function as supervisor and regulator of the three non-banking financial markets, and to increase institutional transparency and public information, FSA monitors the trends, risks and vulnerabilities which might occur on financial markets. More concretely, this requires the development of regular information analyses, performed daily, weekly, monthly, quarterly and biannually. Daily and weekly reports are disseminated internally, but they are also submitted to other public institutions of strategic interest.

In order to enhance international notoriety, visibility and transparency, as well as the attractiveness of financial markets in Romania, FSA published monthly a report on the developments on the non-banking financial markets, in English[1]. The report is of special interest for foreign investors, partner international institutions and representatives of foreign businesses in Romania.

[1] ASF Monthly Market Report - http://asfromania.ro/en/publications/monthly-reports





Quarterly and biannual analyses are published in Romanian and include detailed information on the evolution of non-banking financial markets. Annually, FSA published a detailed analysis report on market trends, in English.

Development of risk monitoring and early identification instruments

The analysis and research activity undertaken by FSA aims at continuing development of risk monitoring and identification tools from a macroprudential perspective.

For this purpose, FSA tested and implemented risk indicators and models, which then presented in the regular analysis reports. FSA also developed a risk methodology which was used in the implementation of the stress test on the investment funds market and set the benchmarks of the exercise, following consultations with market representatives.

For the smooth implementation of the exercise, FSA developed Q&A tools, and data validation and processing instruments. Also, FSA participated, with EIOPA, in the stress testing exercise in the field of life insurance.

Resolution for insurance undertakings and investment firms

In 2015, FSA acquired a new role in the financial system in Romania – the capacity of resolution authority for insurance undertakings and investment firms. This new capacity was acquired as effect of the implementation of Law no. 246/2015 on the recovery and resolution of insurance undertakings, and of Law no. 312/2015 on the recovery and resolution of credit institutions and investment firms.

Thus, in its capacity as resolution authority, FSA is empowered to apply resolution instruments and to exercise resolution powers; this new function has particular relevance in the context of recent European concerns in the field. The financial crisis of 2008 showed that financial institutions of significant importance for the national financial system may jeopardize financial stability due to significant difficulties in terms of continuity of critical functions or to a contagious effect on the entire financial system. In this context, European efforts focus on the implementation of a resolution framework which should enforce a legal regime aimed at solving such situations for the benefit of consumers.

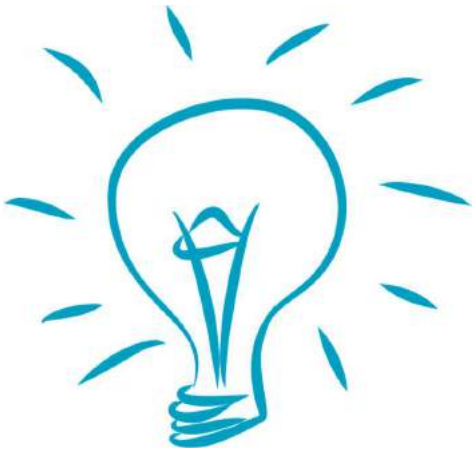
The objectives of the resolution framework focus on the protection of users of financial products and services, on minimising the impact on protection funds, avoiding significant negative effects on the financial stability of the financial markets, and on ensuring the continuity of critical functions, in case of significant alteration of the financial health of certain institutions of high importance at national level.

In this context, a special organisational structure was created within FSA at the beginning of last year, to manage the implementation of the resolution framework for insurance undertakings and investment firms. Thus, this structure supports the optimal performance of the new role of FSA as resolution authority, and last year it took the first steps for the implementation of the new legislation in the field.

Consequently, secondary regulations were developed for the enforcement of the primary legislation in the field, and the entities to whom these legal provisions apply were identified in 2016.

Also, the recovery plans drafted by insurance undertakings according to the new legislation were evaluated, and a new set of benchmark recommendations was developed, so as to enable insurance undertakings to calibrate their organisational structure, internal processes and measures to prevent and plan optimal reaction/prevention measures in case of hypothetical financial difficulty situations.

Each insurance undertaking holding a significant share in the national insurance system should develop and maintain a recovery plan which should include actions to be taken to recover its financial situation in case of significant alteration of financial indicators. Also, in its capacity as resolution authority, FSA develops resolution plans for this category of entities.



Last year witnessed the development of a resolution plan for an insurance undertaking of significant importance at national level, a first both for Romania and for the EU. The insurance undertaking Carpatica Asig was subject to analysis from the viewpoint of the implementation of resolution instruments, and was evaluated by an independent financial auditor. The auditor performed a fair, prudent and realistic evaluation of the assets, liabilities and equities of the insurance undertaking, according to the provisions of Law no. 246/2015, when the company was confronted with major difficulties, and the legislation in the field had to be applied in light of public interest. Prior to this step, the company had undertaken a recovery process which did not produce positive results.

Following the analysis of the independent evaluation report, of the data on the company situation and of the evaluations conducted under the resolution plan, the FSA Board found that none of the resolution instruments provided by Law no. 246/2015 was applicable in the case of Carpatica Asig SA in light of the objective to minimise impact on the protection funds, and the only viable solution was to initiate insolvency procedures. Although this was not the only entity for which resolution a resolution plan was drafted last year, the Carpatica Asig case marked the first use of such a resolution plan, and of an evaluation for resolution purposes.

Given that the process of oversight of guarantee/compensation funds (including the resolution fund for insurance undertakings) in the non-bank sector is a segment of activity closely related, from a technical perspective, to the resolution planning activity, starting with August, the department specialised resolution within FSA assumed additional tasks related to the oversight of such funds.

During last year, FSA provided information on the stage of the guarantees/compensation payment process for oversight authorities from countries where Romanian insurance undertakings facing difficulties operated, while facilitating this mechanism and active communication between the guarantee funds involved in this process. Moreover, FSA provided a positive response to repeated requests to provide information and presentations to members of the community of specialists in oversight interested in the field of resolution in insurance, on the development and implementation of the resolution framework in Romania.

Although the specific notions of this field are related to the technical sphere of analysis and supervision, mention should be made that both recovery planning and the framework generated by the implementation of the resolution mechanism eventually target the stability of the financial system and the protection of users of financial products and services. The development and implementation of this framework introduced the necessary instruments to enable prompt intervention of FSA, in the early stages, in the activity of a non-viable entity or of an entity about to face difficulties, so as to ensure the continuity of its critical financial and economic functions, while minimising the impact of the difficulties faced by the insurance undertaking on the economy and on the financial system.

Institutional capacity

IT infrastructure integration and modernisation

2016 was the year of IT infrastructure integration, modernisation and renewal, focused on the following major action lines:

Centralised infrastructure	Decentralised infrastructure	Centralised printing solution	IT security and continuity
Installation of a unique IT platform at organisation level underpinning the project "Procurement of hardware and software infrastructure and of IT services" in the context of the FSA IT Strategy for 2015-2017 and of the implementation of the "Petition management system within FSA"	Replacement of existing computers – work stations/ laptops – with Hewlett-Packard (HP) computers. This project achieved the implementation of the standard PC aligned with the FSA security policy and with the specific needs of each employee	• Centralised printing management; • Enhanced printing quality and implementation of a documents and printing security mechanism; • Decrease of costs related to service and consumables;	• "Telecommunications infrastructure and network security (LAN/WAN - FSA)"; • "Information security policy within FSA"; • "Policy on information barriers and flows within FSA"

Automation of operational activities and centralisation of data processing

The results of the IT projects mentioned above underpinned new projects with impact on the FSA activity, as follows:

Insurance market

- Development of an internal solution for the management and analysis of Solvency II reporting which covers Solvency II data collection, processing, resubmission and primary analysis and enables the implementation of customised reports.

Private pensions market

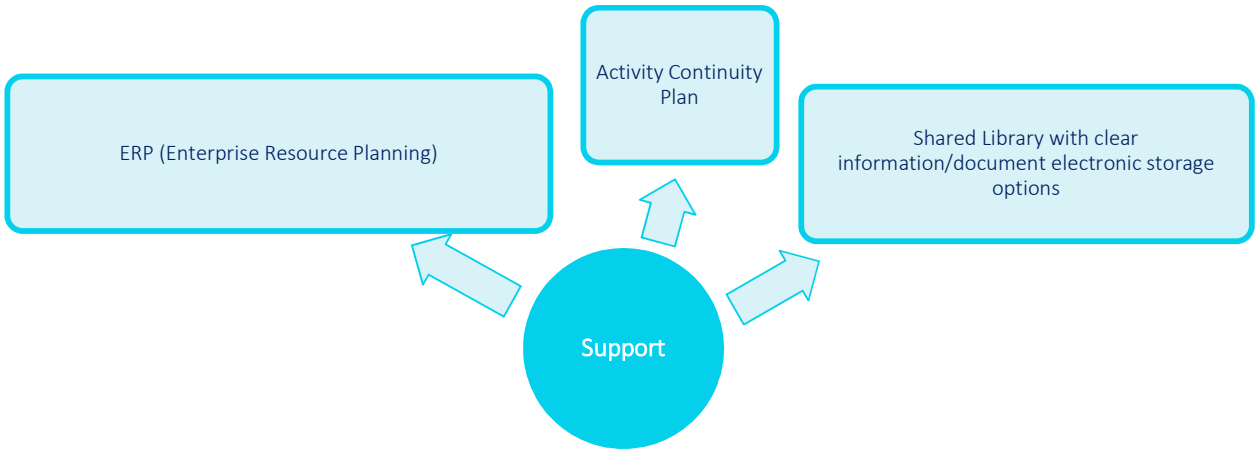
- Participants in pension funds – Pillar II – an electronic platform with direct access from the FSA website was developed under this project, allowing participants in a privately managed pension fund to interrogate the name of the private pension account manager;
- Automation of reporting of entities from the private pensions system – the project aims at the automated processing of information reported in the electronic system, to identify errors and risks within an optimised timeframe and to provide easy data processing;
- Biometric signature – the project performed the evaluation of the need to use biometric signature in the process of affiliation to a private pension fund, and for the signature of the individual affiliation document by the potential participant in the fund.

Capital market

- ESMA-IT Projects - various IT project with impact on FSA supervisory activities are implemented through ESMA: TRACE, FIRDS, TREM.

All sectors

- The automation of the authorisation/endorsement process is a project commenced in the last quarter of 2016 with the goal to implement a standardised authorisation flow for all sectors within FSA, based on the new centralised IT infrastructure.
- Development of a Data Warehouse (DW) system. In 2016 we performed an internal analysis on the need and the impact of the implementation of an integrated business intelligence data warehouse platform at FSA level.



Financial education

In 2016, FSA further contributed to the development of a European image on the consumer and of the factors affecting consumer's rights. Similarly, FSA participated in the specific activity undertaken by the international OECD INFE, and by the international regional working group coordinated by Child&Youth Finance International, both having intense activity in the field of financial education.

The financial education programme initiated in 2015 continued, and turned into a national programme targeting pre-university education and including new actions dedicated to higher education and the general public.

For the first time in 2016, FSA marked on the map of international events on financial education the presence during the celebration of the Global Money Week.

Also, towards the end of the year, a vast debate on the need of financial education was organised. This event was part of the agenda of the Presidential Administration *Educated Romania*.

Qualitative aspects

Based on the FSA Financial Education Strategy for 2015-2018, on the Protocol with the Ministry of Education and on the cooperation agreements with school inspectorates, the pilot programme for non-banking financial education, targeting lower and upper secondary education, was implemented in the academic year 2015-2016; 3 cities (Bucharest, Iași, and Cluj) participated in this programme, with 19 schools and more than 2500 students. During this academic year, the programme was supplemented with the organisation of practical activities during the week of "Different School": visits to the volunteer financial entities and a simulation of an open outcry trading pit at the FSA headquarters. The goal of the programme was that each student should benefit from a set of basic knowledge that would train him/her to be a properly informed consumer, so as to be able to make decisions according to their needs and possibilities, knowing the advantages, rights and obligations arising from the capacity of user of financial products, instruments and services.

During the Global Money Week there were various events to celebrate the financial market and financial education events, together with participants in the FSA financial education programmes, including by organising, together with IFS, the second annual edition of the event *Be smart!* Targeting students aged 9 to 14 years old.

Starting with the academic year 2016-2017, the financial education programme targeting the pre-university education was extended at national level with the support of the professional associations UNSAR and Brokers Association, which provided volunteer lecturers for this programme. Professors from the Finance Department of UVT Timișoara joined them. Thus, the programme was extended to cover 19 cities, with a total number of 89 schools and the participation of more than 12,000 students. This extension was met with enthusiasm, and the schools requested FSA to be included in the programme. Also, regulated entities welcomed the programme with enthusiasm and offered to join FSA in its activities in the field.

As regards the financial education programme targeting the university education, 2016 was dedicated to the development of programmes targeting specifically the needs of this target group. Cooperation protocols were signed with 5 important university centres, followed by the cooperation agreements with the Chamber of Financial Auditors of Romania, the National Institute of Magistracy and the Institute for World Economy of the Romanian Academy. The Academic Laboratory project was initiated, consisting in a series of workshops for case studies. Two conferences (Al. I. Cuza University of Iași and Babeș-Bolyai University of Cluj) and a diversified workshop (Christian University Dimitrie Cantemir of Bucharest) were organised.

FSA joined and supported the programme of the Presidential Administration – *Educated Romania*, which aims at improving the quality of Romanian education. Under this programme, FSA organised on 1 November 2016 a national public debate on the importance of financial education, and the results of this debate were communicated so as to become the subject of a future national strategy for the reform of the education system

Together with NBR and MESR, FSA participated in the organisation of the international summit of Child & Youth Finance International, an important event on the international agenda of financial education.

Implementation of communication in social media – direct interaction with consumers through Facebook. Each person who requested information or presented a problem on Facebook was answered individually. The average reaction time to consumer requests took several minutes, regardless the day of the week (including Saturdays or Sundays) or the hour (including evenings or night time) when the problem was posted. Facebook also meant an important information dissemination channel for informational or educational purposes, and there were various posts targeting the general public for this purpose.

Submission of warnings and useful information to raise public awareness of certain peculiarities of financial products and services. Also, the series of educational guides was extended and diversified – the FSA collection of Guides – and the dissemination of these educational materials was extended at national level.

An interactive webpage dedicated to financial education was developed www.asfromania.ro/edu, with the goal to present in a modern and easy to understand language and using a friendly graphic design as much information as possible to current and future consumers of non-bank financial services. The institution further assumed the financial education website management and the development of educational materials.

The cooperation with NBR in the field of financial education also meant participation in the development of contents for the financial education journal – *Financial education for everybody*. This journal targets primary education and is disseminated by NBR.

FSA representatives participated in various public presentations and conferences as lecturers on financial education topics. Of these, we mention the conferences of the publication Profit, the Annual Congress of Cardiology in Romania.

Development of a consumer analysis – the profile of the Romanian online consumer – *Google Statistics*).

Quantitative aspects

Three guides on the situation of Forte Asigurări and Carpatica Asig were published (the latter in English as well, with adapted contents for Italy), to provide assistance and information to the public. Their objective was to clarify both general and specific situations faced by policyholders.

To support the financial education programme for pre-university education extended at national level, several train-the-trainer sessions were organised (in Bucharest and Brașov) to train the volunteer lecturers involved in the programme on the objectives, the desirable interaction manner and on how they will represent FSA. After the education programme commenced for the academic year 2016-2017, the activities of the external volunteer lecturers were monitored by sample on-the-spot visits, to ensure they provide the adequate representation.

Several guides and printed materials were published for the public – PAD Guide, Guide for participants in Pillar III, shareholder guide, investment fund guide, SAL-FIN consumer guide, online consumer guide, medical malpractice insurance policyholder guide, consumer guide in case of recovery/resolution/ insolvency/ bankruptcy. Moreover, we published three materials dedicated to financial education for children and youth, of which one available in English as well, and a roadmap to explain MTPL. We also developed other materials which will be used in specific financial education activities. These promotional objects aim at disseminating a specific message.

Three presentation sessions were delivered at the FSA headquarters for students from la UBB Cluj, Imre College from Cluj and MBA Paris, on their request.

Cooperation agreements were signed with professional associations or consumer protection associations in order to join efforts in implementing financial education programmes: UNSAR, Brokers' Association, AAF, APAPR, Pro Antonius Association, APPE.

Together with the consumer protection association InfoCons we delivered a special session dedicated to life insurance and private pensions consumers on their website, providing general information to improve knowledge on these financial products.

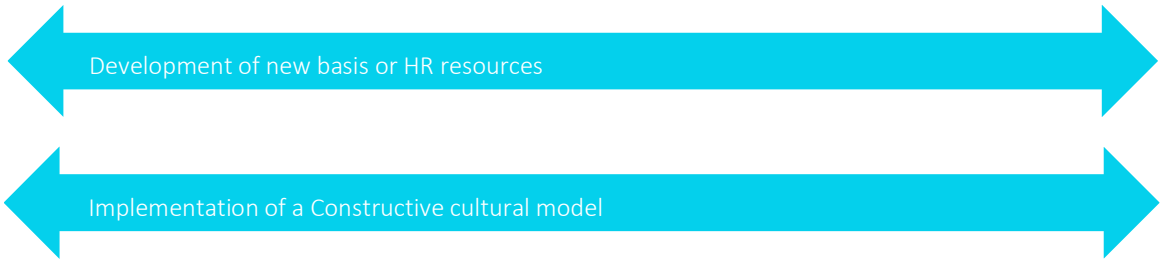
There was a less fortunate case where FSA had to cease the dissemination of the Financial Education Manual developed by BVB and Junior Achievement, and the analysis of its contents revealed various errors and irregularities.

As regards public interaction using Facebook, there were on average 2 posts/week. At the end of the year we reached a threshold of about 2,800 followers, to which we add more than 2,800 persons who like the FSA page, thus the FSA posts automatically get on their wall. The posts have on average 1,700 reaches, the average response time is 57 minutes, with 100% response rate. We mention these are organic indicators (no promotion).

Last, but not least, in 2016, we coordinated the activity of Group no. 7 created by FSA to cover the entire financial market, namely for education and training activities. The concrete results of the Group activity were the cooperation agreements signed with professional associations (which led to the implementation of the joint activities described above), a mapping of financial education activities organised in the past 5 years by financial entities and a draft new regulation on training.

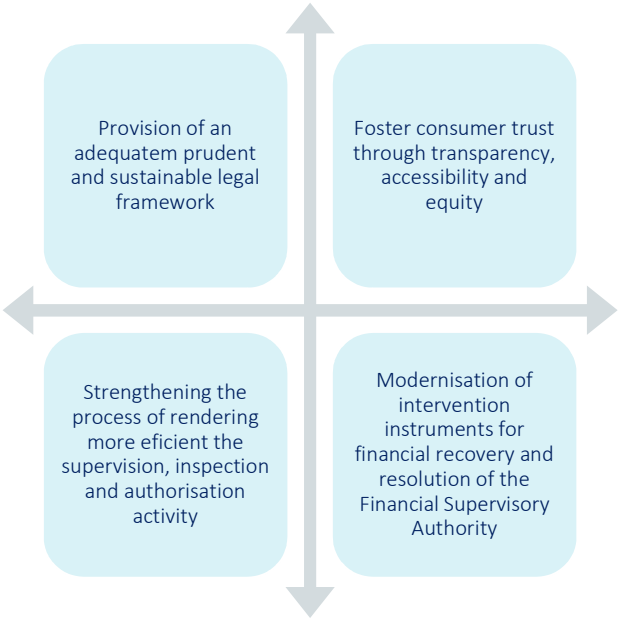
Human resources management

While in 2015 the human resources strategy of FSA focus on completing the institutional reform, and on defining the best organisation culture model, in 2016 priorities focused on:

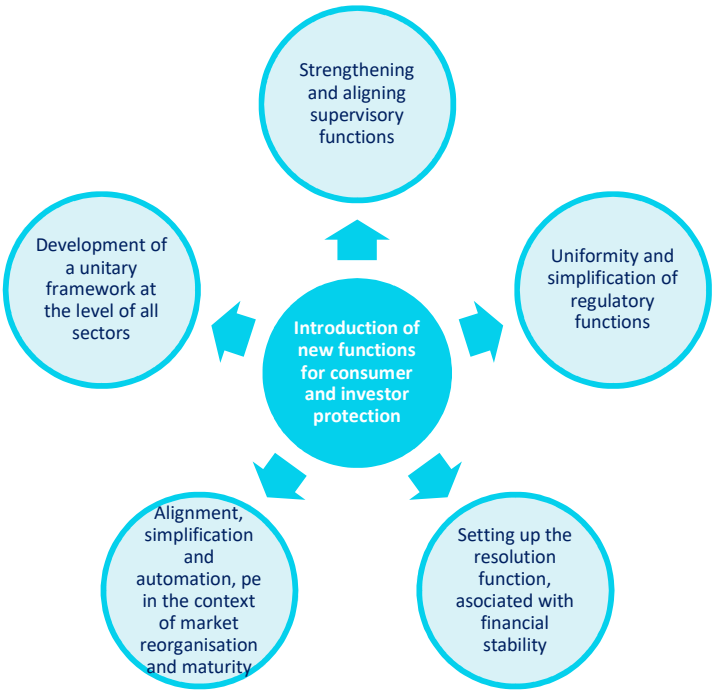


Thus, we finalised the fourth stage of the FSA reform, which involved amendments and additions to the FSA Organisation and Functioning Regulation applicable from 01.01.2016, according to the requirements generated by the newly adopted legislation and to the provisions of European directives on the regulation and oversight of capital markets, insurance-reinsurance markets and private pensions system.

The development of amendments to the FSA Organisation and Functioning Regulation considered the amendments brought to the legal framework, by transposing European directives into the national legislation, and the FSA objectives for 2016, which continue the objectives set for 2015, and are actually a qualitative enhancement of the activities so far, namely:



The implementation of the fourth stage of the FSA reform considered aspects and principles arising both from legal amendments and European directives and from the objectives assumed by the Financial Supervisory Authority as follows:



In the context of the aspects presented, the Financial Supervisory Authority, as well as other competent authorities in the EU, underwent vast reorganisation and reform processes to adapt its institutional framework and its internal organisational structures, so as to be able to perform the new tasks provided by the European legislation, in line with the legal reforms taking place in the capital markets and insurance fields. In the process of strengthening the organisational culture, we aimed at the shift from a Passive-Defensive culture to a Constructive culture. The cultural shift relied on the following vectors:

Development of FSA leadership

To this purpose, we designed a programme for the top management of the institution, including the diagnosis of the individual profile of participants, harmonised understanding of how the FSA strategy should be implemented by each structure and a review of modern management concepts. The programme was implemented with an external provider which delivered both the facilitation and training component, and coaching sessions.

Alignment of organisational and management skills with the FSA strategy and objectives

The programme was implemented in an open framework, which enabled wide participation of the institution management in defining and approving the necessary skills underpinning recruitment, performance review and career management processes.

Focus on performance and results

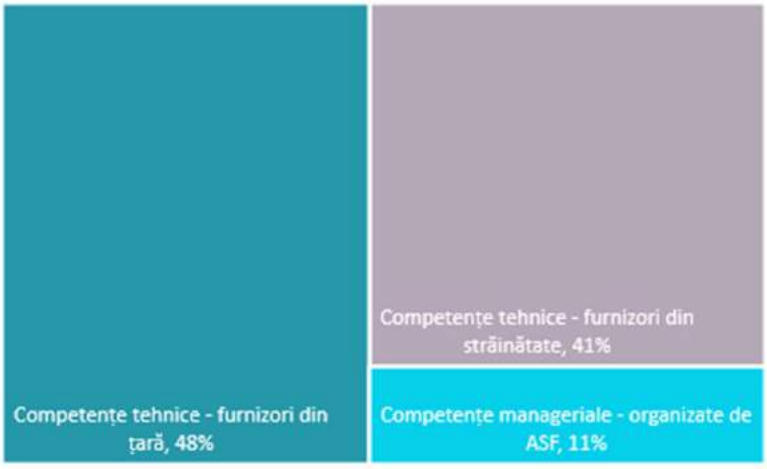
This involved cascade implementation of institutional objectives up to individual level and definition of SMART objectives and relevant KPIs for each employee

Enhanced institutional synergy and decreased distance from management

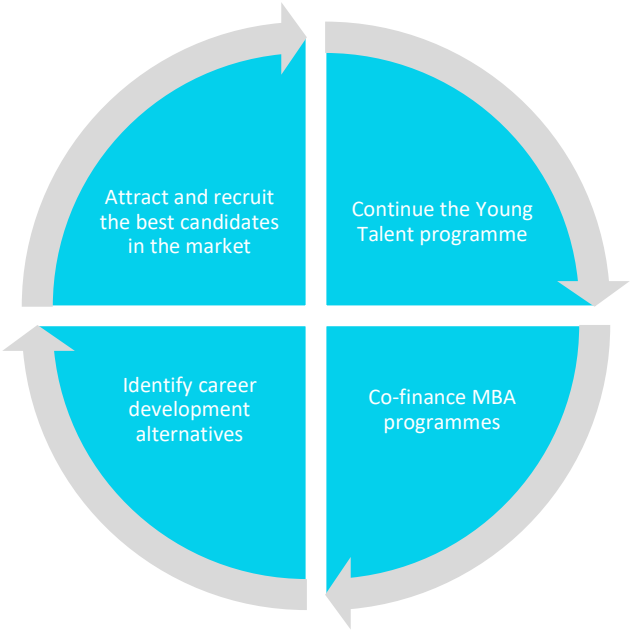
Given the long-term impact of the non-banking financial markets regulation and oversight activities, management by objectives became the current working manner aimed at anticipation of risk factors and early identification of actions which guarantee performance.

Improvement of professional and management skills

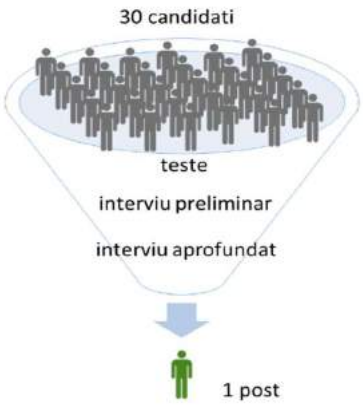
In order to cope successfully with the ever more varied challenges of the three markets regulated and supervised by FSA, we implemented annual employee development plans, we diversified development opportunities and we included, besides the traditional training, a coaching programme, and ensured employee participation not only in the programmes delivered by internal providers, but also in programmes delivered by international providers (ESMA, EIOPA, EBA, ESA, JVI). Also, FSA concluded an agreement with CFA Institute to encourage participation of our employees to programmes targeting professionals in the field.



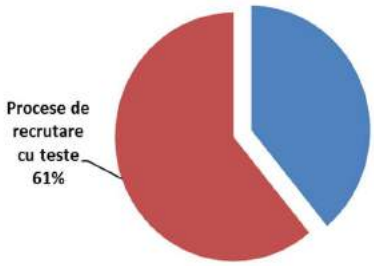
The development of FSA pool of talents focused on the following pillars:



Average number of candidates for one position



Share of tests in recruitment processes



Development of modern working instruments and practices

For this purpose, we implemented an IT platform to manage the main human resources processes: job description development, setting performance objectives, professional performance review, identification of training and development needs, 180^0 review. Working practices relied on the following principles: focus on the strategic objectives of the institution and on employee needs, professionalism and cooperation.

Corporate governance

There are four support commissions working for the FSA Board to ensure more efficient and better organisation of the activities of the Financial Supervisory Authority.

Ethics Committee

- Verify the implementation of the FSA Ethics and Integrity Code, having an advisory and analysis role, and their task is to examine and solve individual notifications and complaints of FSA employees and of the FSA Board members on breaches of the internal provisions on ethics and integrity;
- Analyse the notifications and complaints received to identify the actual causes and circumstances leading to those situations, as well as their possible effects, and then submit proposals on solutions for the notifications and complaints received, to be approved by the FSA Board;
- Propose the initiation of the disciplinary investigation procedure for FSA employees, after having informed the FSA Board, according to FSA internal regulations;
- Convene in monthly meetings or in extraordinary meetings, in exceptional circumstances, upon request of the President of the Committee.

The activity of the FSA Ethics Committee was audited by the representatives of the Romanian Court of Auditors, and the case files regarding breaches of the FSA Code of Ethics and Integrity were analysed during the inspection activities conducted both in 2016 and this year.

Appeal Committee

- Advisory role in the process of solving preliminary complaints filed pursuant to Law no. 554/2004 on administrative proceedings, as further amended and supplemented, against administrative acts issued by the Financial Supervisory Authority;
- The main objectives are to ensure dialogue between the entities/persons targeted by the administrative acts issued by FSA, and to prevent court litigations.

Audit Committee

- The Audit Committee was set up to define the FSA strategic action lines and policy on internal inspection, risk management and internal audit;
- The Audit Committee ensures the independence and efficient implementation of internal audit activities within FSA by maintaining open and transparent communication both with the management of the Internal Audit Department and with the FSA Board;
- The goal of the activity was to organise and implement internal audit activities within FSA, to issue recommendations for the FSA President/FSA Board on the endorsement of internal audit reports, to issue recommendations for the Internal Audit Department to improve the organisation and implementation of its activities, and to discuss draft amendments to the Regulation on the Organisation and Functioning of the Audit Committee.

Communication and Financial Education Committee

- This Committee was set up to ensure adequate implementation of specific activities to reach FSA strategic objectives;
- The Committee examines opportunities related to the communication activity and financial education projects in line with the FSA public strategy for these fields; the proposals of the Committee may be submitted for approval to the Financial Supervisory Authority Board.

Communication and institutional transparency

Communication platform development

While 2015 was the year of the diversification of public communication channels, especially on social media (Facebook, LinkedIn, YouTube), 2016 focused mainly on strengthening the communication activity. Strategic objectives aimed at developing the projects initiated in previous years, and at enhancing FSA transparency in the relationship with stakeholders. The Authority focused on the graphic dimension of communication activities and designed in house printed materials (publications, leaflets, guides etc.) and other representation materials.

Media Relations

In 2016, one of the communication priorities of the Authority was the permanent dialogue with journalists, to convey information of interest for non-bank financial services consumers. In 2016, FSA drafted and communicated more than 150 press releases to highlight crucial aspects of the activity undertaken by the institution, the evolution of regulated markets and, in certain specific cases, aspects related to the companies supervised by the Authority. At the same time, FSA responded promptly to more than 300 requests for information (media and TV interviews etc.) submitted by the media.

FSA Open Doors Days

Communication platforms with professionals in the non-banking financial field, initiated with the project "FSA Open Doors Days", in 2015, were developed during the second edition, organised in 2016. Thus, the events organised for the international conference "*Financial innovation, consumer protection and financial stability in emerging markets",* under the aegis of FSA Open Doors Days, enjoyed the participation of renowned national and international personalities in the financial field. During FSA Open Doors Days, the Authority and CFA Romania – association of chartered financial analysist – granted awards for the best scientific papers presented during the second day of the international conference.

Social Media

Given the diversification of communication platforms, FSA focuses more and more on social media which enable permanent dialogue with financial services consumers (Facebook) and dissemination of information on the institution activities (LinkedIn and YouTube).

www.asfromania.ro

The official website of FSA remains the main channel reflecting current FSA activities. www.asfromania.ro provides information on legal amendments, on projects under public consultation and information on the supervised markets. The website is permanently updated and the number of monthly posts is almost 200. The section in English makes available for investors general information on the Authority's operational framework and on the legal provisions in the field.

Law no. 544/2001

FSA responded to 28 requests submitted by natural and legal persons, pursuant to Law no. 544/2001, on free access to public information. They targeted provision of information on the activity of the Authority for all three sectors.

International Cooperation

Cooperation with ESMA

The regulatory activity of ESMA focused in 2016 on the development and publication of 57 regulatory technical or implementing standards, of which:

- 13 were developed for the implementation of the Markets in Financial Instruments Directive and Regulation (MiFID II/MiFIR);
- 18 for the implementation of the Benchmarks Regulation;
- 4 for the implementation of the Market Abuse Regulation (MAR);
- 5 for the implementation of the Regulation on European Markets Infrastructure Regulation (EMIR) and of the Market Abuse Regulation (MAR);
- 5 in compliance with the European long-term investment funds (ELTIF) and with the Market Abuse Regulation (MAR);
- 6 pursuant to the Securities Financing Transaction Regulation (SFTR).

Being involved both in the development process as part of the standing committees of ESMA, and in the process of adoption of these technical standards in the Board of Supervisors, FSA participated in the strengthening of the single rulebook for the regulation of EU financial markets and has detailed knowledge of the technical aspects that should be considered in the implementation of Community legislation at national level.

In 2016, ESMA published various guidelines applicable to competent authorities. FSA notified the European authority on the following:

- Intention to comply with the provisions of the Guide for the assessment of knowledge and competence;
- Intention to comply with the provisions of the MAR Guide on delayed disclosure of inside information;
- Intention to comply with the provisions of the MAR Guide for persons receiving market soundings;
- Intention to comply with the provisions of the Guide on complex debt instruments and structured deposits;
- Intention to comply with the provisions of the Guide on cross-selling practices;
- Compliance with the provisions of the Guide on sound remuneration policies according to the UCITS Directive;
- Compliance with the provisions of the Guide on sound remuneration policies according to the AIFM Directive.

FSA was also involved in ESMA activities by the participation of Mr. Mișu Negrițoiu, FSA President, in the activities of the Committee for Economic and Markets Analysis (CEMA), as chairperson of the group. Having regard to the ESMA strategy 2016 – 2020 and CEMA strategic focus to achieve ESMA objectives and bring added-value to member states, the group included three projects aiming at the analysis of current topics of high interest at European level. These projects are implemented using the group resources and are coordinated each by a member state. In this context, Romania assumed coordination of one of the projects, namely: "*Development of risk indicators for alternative investment funds".*

Activity within EIOPA

Starting with January 2016, the European Insurance and Occupational Pensions Authority (EIOPA) entered a vast institutional reorganisation process, reflected inclusively on the EIOPA's approach on regulatory and supervisory activities.

The main projects of EIOPA were implemented within fixed-term working groups, created to manage specific topics, and their activity generally resulted in the development of reports and opinions which define EIOPA`s approach on various key aspects of the new European solvency regime (Solvency II).

The Supervisory Handbook (SRP Handbook), one of the fundamental instruments of EIOPA developed to contribute to convergence in supervision, by identification and recommendation of best practices to support national supervisory authorities, was supplemented by two chapters on:

Continuing supervision of applicability of internal models (internal models are one of the fundamental pillars of Solvency II regime, enabling insurance and reinsurance undertakings to consider the risk profile in determining the necessary solvency capital, obtaining much more accurate results than by using the standard formula);

The Prudent Person Principle (the chapter includes recommendation on specific categories of assets).

Consumer protection was priority fields for the EIOPA activities in 2016.

The following actions were implemented in 2016:

- ✓ In June 2016, EIOPA initiated a working group whose final objective is to develop an EIOPA Opinion on the European recovery and resolution framework for insurance undertakings. In 2016, the group, including a FSA representative, delivered a brief presentation of the existing recovery and resolution framework for insurance undertakings at EU level, analysed the advantages and disadvantages of a possible harmonisation in this field and shaped the basis of a new recovery and resolution framework.
- ✓ On 20-21 October 2016, an EIOPA evaluation team visited FSA. The evaluation mission focused on monitoring the recommendations issued by the EIOPA following the evaluation conducted in May 2014, on the actions performed by FSA following the Balance Sheet Review exercise, especially with regard to companies which at the moment did not fulfil capital requirements and on FSA practices and priorities in the field of regulation and supervision of the insurance market, in the context of implementation of Solvency II. The conclusions of the evaluation team were positive for FSA; the team appreciated the actions taken so far, and indicated that they contributed to strengthening the insurance market in Romania. The recommendations targeted further efforts for alignment to risk-based supervision and managing the vulnerabilities of certain insurance undertakings with regards to compliance with capital requirements.

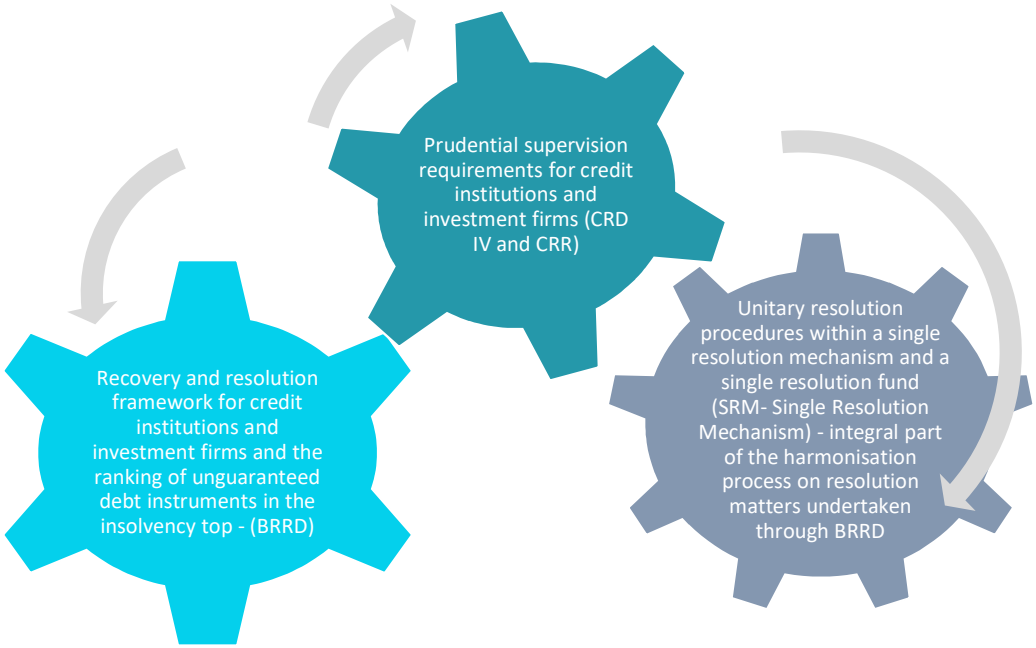
The folowing actions will be implemented:

- Continue activities to develop secondary and tertiary legislation for the implementation of Insurance Distribution Directive (IDD), which will enter into force at the beginning of 2018. Consultation Papers on POG Guidelines for insurance undertakings and insurance distributors and the Consultation document on the technical advice to the Commission for possible delegated acts on IDD were approved.
- As regards the PRIIPs Regulation, to be enforced starting with 31 December 2017, the EIOPA procedure on product intervention powers, including warning, temporary ban or restricted publicity/trading, distribution and selling of insurance products with investment component, causing concerns related to investor protection, orderly operation and integrity of financial markets or to the stability of the financial system.
- The methodology and the timeline for the stress test programme EIOPA intends to launch at the end of May 2017 for the occupational pensions sector were approved.
- In the context of the implementation of the new legal provisions on the new Solvency II regime and of intensification of cross-border activities, EIOPA reconfigured the cooperation mechanism for member states, aiming at enhanced dialogue between supervisors and strengthened basis for the supervision of insurance companies undertaking activities in the EU member states, based on the freedom to provide services and freedom of establishment. The EIOPA efforts resulted in the review of the current Cooperation Protocol made official by a cooperation decision assumed by FSA in its capacity as member of the European authority, and this will be implemented starting with 1 May 2017.

Activity within working groups of the European Commission and of the Council

In July 2016 the European Commission published the draft amendment to the European Venture Capital Regulation and of the Regulation on European social entrepreneurship funds (EuVECA and EuSEF), and the Council set up a group for the negotiation of these draft regulations. FSA experts were appointed to participate in the activities of the group whose goal is to review the texts and to evaluate the efficiency, coherence, relevance of the two Regulations and the added-value they brought to the EU, given the identification of factors preventing the development of such funds, especially the rules governing funds investments in assets, and the interactions of the two regulations with other existing laws on investment funds, and the requirements the funds should comply with in order to benefit from the cross-border passport.

Towards the end of 2016, EC published a vast legislative package on risk mitigation actions and set up a new working group within the Council (RRM), where FSA appointed experts to be involved in the negotiations related to this package. The legislative package, which is a task both for FSA and NBR, amends:



Besides this newly set up group, FSA experts continued their activity within the working groups they were appointed to participate in, for projects aiming at:

- Central counterparties recovery and resolution (CCP);
- Review of the Directive on the prospectus and its replacement with a European Regulation;
- Draft Regulation on regulating simple, transparent and standardised securitisations (Securitisation Group);
- Money Market Funds (MMF);
- Capital Markets Union (CMU).

Also, certain working groups concluded their activities, for example the group for the negotiation on the Insurance Distribution Directive (IDD) and for the revision of the Directive on the activity and supervision of institutions for occupational retirement provision (IORP II), as these two laws were published in the *Official Journal of the EU*.

Cooperation between FSA and the European Commission (EC)

During the post-programme supervision of the Loan Agreement between Romania and EC, FSA continued discussions with the European institution on the developments on the insurance and capital markets. The evolutions on the insurance market were reflected in the *Country Report for Romania of 2017*[2] published by EC within the package of documents on the European Semester 2017.

Also, in line with the priorities of the Capital Markets Union (CMU), EC supported FSA to strengthen its capital market supervision capacity, by financing a technical assistance implemented in cooperation with WB, to be finalised in the autumn of 2017. The goal of the project is to include best EU practices in the process of redefining the supervisory function for investment companies and fund managers active on the domestic capital market.

[2] The document was published in 2017, but it includes data and information for 2016.

Activity in international organisations (IOSCO, IAIS, IOPS, IFREFI)

In 2016, FSA continued its involvement in the activity of international organisations where it is a member of (IOSCO, IAIS, IOPS, IFREFI) by participation both in working meetings and in the development of documents published by these organisations.

One of the most important documents adopted by IOSCO in 2016 is the new Memorandum of cooperation on exchange of information (Enhanced MMoU), introducing additional requirements to the current IOSCO MMoU (signed by FSA) related to the powers held by authorities with regard to obtaining relevant information. For this purpose, FSA will perform an analysis on the timeliness and the necessary actions to join this international cooperation instruments.

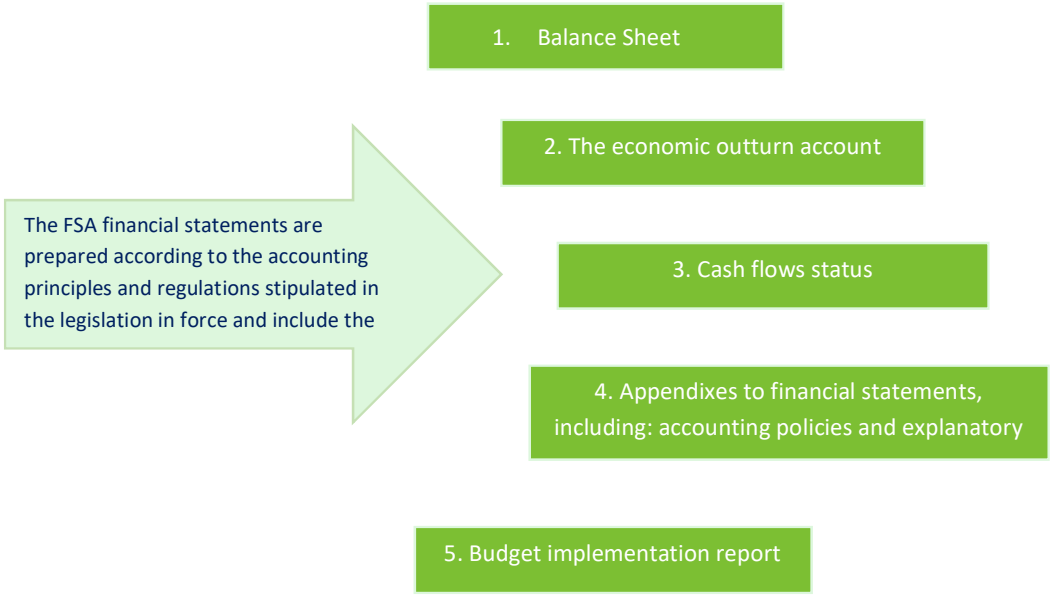
IAIS activity focused in 2016 on the development of International Capital Standards (ICS) and o the review of the IAIS Insurance Core Principles (ICP). For this purpose, FSA participated in the self-assessment exercises on ICP implementation and in the development of the final version for ICSs testing.

FSA ANNUAL FINANCIAL STATEMENTS

FSA ANNUAL FINANCIAL STATEMENTS FOR 2016

The Financial Supervisory Authority is an autonomous, specialized administrative authority, a legal independent, self-financed entity, established as per Art.1(2) in GEO 93/2012 on the establishment, organisation and functioning of the Financial Supervisory Authority approved by Law no.113/23.04.2013, as amended and supplemented.

The financial statements as of December 31.12.2016 were prepared according to the provisions of Accounting Law no.82/1991, of the Order no. 1917/2005 was further amended and supplemented, including the provisions of the Order no.2021/2013 of Minister of Public Finance on amending and supplementing the Implementation Guidelines for the organisation and management of public institutions' bookkeeping, the Plan of Accounts for public institutions and implementation instructions thereof, Order no.191/30.01.2017 of the MFP on approving the Implementation Guidelines for preparing and submitting financial statements of public institutions as of December 31st 2016.



The financial statements provide relevant information for taking economic decisions and reliable information in the sense that they represent the accurate earnings and the financial position. These are neutral, cautious and full according to all relevant aspects. The financial statements are prepared in Lei, the monetary items are in foreign currency, the receivables and debts in foreign currency, the non-monetary items purchased in foreign currency are assessed and reported and the NBR exchange rate valid on 31.12.2016.

The annual financial statements were audited by **Ernst & Young SRL. The auditors' opinion was that the financial statements convey an accurate and proper image of FSA financial position as of 31 December 2016, as well as of the financial performance and cash flows**.

FSA BALANCE SHEET AS OF 31.12.2016

-lei-

No.	INDICATORS	Row Code	Balance at the beginning of the year	Balance at the end of the period
A	**B**	**01**	**X**	**X**
1.	**ASSETS**	**01**	**X**	**X**
2.	**NON-CURRENT ASSETS**	**02**	**X**	**X**
3.	**Intangible assets** (accounts 2030000+ 2050000+2060000+2080100+2080200+ 2330000-2800300-2800500-2800800-2900400-2900500-2900800-2930100*)	**03**	3,427,300	3,818,807
4.	**Plant and machinery, motor vehicles, animals, plantations, fixtures and fittings** (accounts 2130100+2130200+ 2130300+2130400+ 2140000+ 2310000 -2810300-2810400-2910300-2910400-2930200*)	**04**	2,123,859	6,540,800
5.	**Freehold land and buildings** (accounts 2110100+2110200+2120101+2120102+ 2120201+ 2120301+2120401+2120501+2120601+2120901+2310000-2810100-2810200 -2910100-2910200-2930200)	**05**	14,713,473	13,913,647
6.	**Other non-financial assets** (account 2150000)	**06**	0	0
7.	**Other non-current financial assets (long term investments) over one year** (accounts 2600100+2600200+2600300+2650000+2670201+ 2670202+ 2670203+ 2670204+2670205+2670208-2960101-2960102-2960103-2960200), of which:	**07**	0	0
8.	Equity investments (accounts + 2600100 +2600200 +2600300 -2960101 -2960103	**08**	0	0
9.	**Non-current receivables – amounts which are to be collected after a period longer than one year** (accounts 4110201+4110208+ 4130200+4280202+4610201+ 4610209- 4910200-4960200), of which:	**09**	80,745	65,520
10.	Non-current commercial receivables – amounts which are to be collected after a period longer than one year (accounts) 4110201+4110208+4130200+ 4610201-4910200-4960200)	**10**	15,225	0
11.	**TOTAL NON-CURRENT ASSETS (rows 03+04+05+06+07+09)**	**15**	**20,345,377**	**24,338,774**
12.	**CURRENT ASSETS**	**18**	x	x
13.	**Inventories** (accounts 3010000+3020100+3020200+3020300+3020400+3020500+ 3020600 +3020700+3020800+3020900+3030100+3030200+ 3040100+ 3040200+ 3050100+ 3050200+3070000+3090000+ 3310000+3320000+ 3410000+3450000+ 3460000+ 3470000+ 3490000+3510100+3510200+ 3540100+3540500+3540600+ 3560000+ 3570000+3580000+3590000+ 3610000+3710000+ 3810000+/-3480000+/-3780000-3910000-3920100-3920200-3930000-3940100-3940500-3940600-3950100-3950200-3950300-3950400-3950600-3950700-3950800-3960000-3970000-3980000-4420803)	**19**	1,726,124	1,359,878
14.	**Current receivables – amounts which are to be collected in less than one year -**	**20**	x	x
15.	**Receivables resulted from commercial operations, advances and other reimbursements** (accounts 2320000+ 2340000+4090101+4090102+4110101+4110108+ 4130100+4180000+ 4250000+ 4280102+4610101+4610109+ 4730109**+4810101+4810102+ 4810103+ 4810200 +4810300+4810900+4820000+4830000+4890101+4890301-4910100-4960100+ 5120800), of which:	**21**	17,975,800	17,094,491
16.	**Reimbursements related to the closure of state budget implementation during the current year (accounts 4890101+4890301)**	**21.1**	0	0
17.	**Commercial receivables and advance payments** (accounts 2320000+2340000+4090101+ 4090102+ 4110101+ 4110108+ 4130100+4180000+4610101-4910100-4960100), of which:	**22**	17,865,967	17,077,313
18.	Advance payments made (accounts 2320000+2340000+4090101+4090102)	**22.1**	1,047,545	0
19.	**Budget receivables** (accounts 4310100**+4310200**+4310300**+4310400**+ 4310500**+ 4310700**+4370100**+4370200**+4370300**+4420400+ 4420800**+4420802+4440000**+4460000**+4460100**+ 4460200**+ 4480200 +4610102+4610104+4630000+4640000+4650100+4650200+4660401+4660402+ 4660500+4660900+ 4810101**+4810102**+ 4810103**+ 4810900**+ 4820000**-4970000), of which:	**23**	515,670	1,051,676
20.	Receivables from the general consolidated budget (accounts 4630000+4640000+4650100+ 4650200+4660401+ 4660402+ 4660500+4660900-4970000)	**24**	0	0
21.	**Receivables from operations with non-reimbursable external funds and national budget funds** (accounts 4500100+4500300+4500501+4500502+4500503+	**25**	0	0

	4500504+ 4500505+ 4500700+4510100+4510300+4510500+ 4530100+4540100+ 4540301+4540302+ 4540501+4540502+ 4540503+4540504+4550100+ 4550301+4550302+4550303+ 4560100+4560303+4560309+4570100+ 4570201+4570202+ 4570203+4570205+ 4570206+4570209+4570301+ 4570302+ 4570309+4580100+ 4580301+ 4580302+ 4610103+4730103**+ 4740000+4760000), of which:			
22.	Amounts to receive from the European Commission / other donors (accounts 4500100+ 4500300+4500501+4500502+4500503+ 4500504+ 4500505+4500700)	**26**	0	0
23.	**Short term loans provided** (accounts 2670101+2670102+2670103+ 2670104+2670105+ 2670108+ 2670601+2670602+2670603+2670604+ 2670605+ 2670609+ 4680101+4680102+4680103+4680104+4680105+ 4680106+ 4680107+4680108+4680109+4690103+4690105+ 4690106+ 4690108+4690109)	**27**	70,116,677	84,070,437
24.	**Total current receivables (rows 21+23+25+27)**	**30**	**88,608,147**	**102,216,604**
25.	**Short term investments** (account 5050000-5950000)	**31**	0	0
26.	**Accounts in treasuries and credit institutions:**	**32**	x	x
27.	**Accounts in treasury, petty cash in lei** (accounts 5100000+5120101+5120501+5130101+ 5130301+5130302+ 5140101+5140301+5140302+5150101+5150103+ 5150301+ 5150500+5150600+5160101+5160301+5160302+5170101+ 5170301+5170302+ 5200100+5210100+5210300+5230000+ 5250101+ 5250102+5250301+5250302+ 5250400+5260000+ 5270000+5280000+ 5290101+5290201+5290301+5290400+ 5290901+5310101+5500101+ 5520000+ 5550101+5550400+ 5570101+5580101+ 5580201+5590101+ 5600101+5600300+ 5600401+5610101+5610300+5620101+ 5620300+ 5620401+ 5710100+5710300+5710400+5740101+5740102+5740301+ 5740302+5740400+5750100+5750300+5750400-7700000)	**33**	18,695,562	26,724,468
28.	Interest to receive, other securities, treasury advance payments (accounts 5180701+ 5320100 + 5320200+5320300+5320400+ 5320500+ 5320600+5320800+5420100)	**33.1**	1.764	1.764
29.	Deposits	**34**	x	x
30.	**Accounts in credit institution, National Bank of Romania, petty cash in foreign currencies** (accounts 5110101+5110102+ 5120102+5120402+5120502+ 5130102+5130202+5140102+ 5140202+ 5150102+ 5150202+ 5150302+5160102+5160202+5170102+ 5170202+5290102+ 5290202+ 5290302+5290902+5310402+5410102+ 5410202+ 5500102+5550102+ 5550202+ 5570202+5580102+5580202+ 5580302+5580303+5590102+ 5590202+5600102+ 5600103+ 5600402+5610102+5610103+5620102+5620103+5620402)	**35**	22,690,730	41,108,802
31.	Interest to receive, treasury advance payment (accounts 5180702+5420200)	**35.1**	138,878	307,582
32.	Deposits	**36**	X	X
33.	**Total cash accounts and other securities (rows 33+33.1+35+35.1)**	**40**	41,526,934	68,142,616
34.	**Cash accounts in Central Treasury and local treasury branches** (accounts 5120600+5120700+5120901+5120902+5121000+ 5240100+ 5240200+5240300+5550101+5550102+5550103 -7700000)	**41**	0	0
35.	Interest to receive, other securities, treasury advance payments (accounts 5320400+5180701+ 5180702)	**41.1**	0	0
36.	**Advance expenses** (account 4710000)	**42**	0	7,403,687
37.	**TOTAL CURRENT ASSETS (rows 19+30+31+40+41+41.1+42)**	**45**	131,861,205	179,122,785
38.	**TOTAL ASSETS (rows 15+45)**	**46**	**152,206,582**	**203,461,559**
39.	**DEBTS**	**50**	x	x
40.	**NON-CURRENT DEBTS- amounts that are to be paid over a period longer than one year**	**51**	x	x
41.	**Non-current amounts- amounts that are to be paid over a period longer than one year** (accounts 2690200+4010200+4030200+4040200+4050200+ 4280201+ 4620201+ 4620209+5090000), of which:	**52**	0	0
42.	Commercial debts (ct.4010200+4030200+4040200+4050200+4620201)	**53**	0	0
43.	**Long term loans** (accounts 1610200+1620200+1630200+1640200+ 1650200+ 1660201+1660202+1660203+1660204+1670201+1670202+ 1670203+ 1670208+1670209-1690200)	**54**	0	0
44.	**Provisions** (accounts 1510201+1510202+1510203+1510204+1510208)	**55**	0	24,443,561
45.	**TOTAL NON-CURRENT DEBTS (rows 52+54+55)**	**58**	**0**	**24,443,561**
46.	**CURRENT DEBTS - amounts that are to be paid within one year**	**59**	x	x
47.	**Commercial debts, advances and other reimbursements** (accounts 2690100+4010100+ 4030100+ 4040100+4050100+ 4080000+4190000+4620101+4620109+ 4730109+4810101+	**60**	719,775	8,108,645

	4810102+4810103+4810200+4810300+4810900+ 4820000+ 4830000+4890201+ 5090000+5120800), of which:			
48.	**Reimbursements related to the closure of state budget implementation during the current year (accounts 4890201).**	**60.1**	0	0
49.	Commercial debts and advance payments (accounts 4010100+4030100+4040100+4050100+ 4080000+ 4190000+ 4620101), of which:	**61**	671,995	8,060,772
50.	Advance payments received (account 4190000)	**61.1**	0	0
51.	**Debts towards budgets** (accounts 4310100+4310200+4310300+4310400+4310500+ 4310700+4370100+4370200+4370300+4400000+4410000+ 4420300+ 4420801+ 4440000+4460000+4460100+4460200+ 4480100+4550501+ 4550502+4550503+ 4620109+4670100+ 4670200+4670300+ 4670400+ 4670500+4670900+ 4730109+ 4810900+4820000), of which:	**62**	2,981,076	3,002,699
52.	Debts of public institutions towards budgets	**63**	x	x
53.	Social contributions (accounts 4310100+4310200+4310300+4310400+4310500+ 4310700+4370100+4370200+4370300)	**63.1**	2,138,147	2,138,526
54.	Amounts due to the budget from external non-reimbursable funds (account 4550501+4550502+4550503)	**64**	0	0
55.	**Debts from operations with external non-reimbursable funds and national budget funds, other debts towards international bodies** (accounts 4500200+4500400+4500600+4510200+4510401+ 4540402+4540409+ 4510601+4510602+4510603+4510605+ 4510606+ 4510609+4520100+ 4520200+ 4530200+4540200+ 4540401+4540402+ 4540601+4540602+4540603+4550200+ 4550401+4550402+4550403+ 4550404+4550409+4560400+ 4580401+ 4580402+ 4580501+4580502+ 4590000+4620103+ 4730103+ 4760000)	**65**	0	0
56.	of which: amounts due to European Commission / other donors (accounts 4500200+4500400+4500600+4590000+4620103)	**66**	0	0
57.	**Short term loans – amounts that are to be paid within one year** (accounts 5180601+5180603+5180604+5180605+5180606+ 5180608+ 5180609+5180800+5190101+5190102+5190103+ 5190104+ 5190105+5190106+ 5190107+5190108+5190109+ 5190110+ 5190180+5190190)	**70**	0	0
58.	**Long term loans – amounts to be paid during the current fiscal year** (accounts 1610100+1620100+1630100+1640100+1650100+ 1660101+1660102+ 1660103+1660104+1670101+1670102+ 1670103+ 1670108+1670109+1680100+ 1680200+1680300+ 1680400+1680500+ 1680701+1680702+1680703+1680708+ 1680709 -1690100)	**71**	0	0
59.	**Employees' wages**(accounts 4210000+4230000+4260000+4270100+4270300+4280101)	**72**	4,384,065	4,615,182
60.	**Other rights for other categories (pensions, unemployment benefits, scholarships)** (accounts 4220100+4220200+4240000+4260000+4270200+ 4270300 +4290000+4380000), of which:	**73**	0	0
61.	**Pensions, unemployment benefits, scholarships**	**73.1**	x	x
62.	**Advance revenues** (account 4720000)	**74**	0	1,971,770
63.	**Provisions** (accounts 1510101+1510102+1510103+1510104+1510108)	**75**	27,185,657	12,483,049
64.	**TOTAL CURRENT DEBTS (rows 60+62+65+70+71+72+73+74+75)**	**78**	35,270,573	30,181,345
65.	**TOTAL DEBTS (rows 58+78)**	**79**	35,270,573	54,624,906
66.	**NET ASSETS = TOTAL ASSETS – TOTAL DEBTS = OWN CAPITAL INSTRUMENTS (row 80= rows 46-79 = row 90)**	**80**	**116,936,009**	**148,836,653**
67.	**OWN CAPITAL INSTRUMENTS**	**83**	x	x
68.	**Reserves, funds** (accounts 1000000+1010000+1020101+1020102+1020103+ 1030000+ 1040101+1040102+1040103+1050100+1050200+1050300+1050400+1050500+ 1060000+1320000+1330000+1390100)	**84**	3,273,329	4,152,261
69.	**Retained earnings** (account 1170000- credit balance)	**85**	76,605,693	112,847,746
70.	**Retained earnings** (account 1170000- debt balance)	**86**		
71.	**Profit/loss for the period** (account 1210000- credit balance)	**87**	37,056,987	31,836,646

FSA Profit/Loss Account as of 31.12.2016

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No.	INDICATORS	Row Code	Previous year	Current year
A	**B**	**C**	**1**	**2**
I.	**OPERATIONAL REVENUES**	01		
1.	**Revenues from taxes, fees, contributions to insurance and other budget revenues** (accounts 7300100+7300200+7310100+7310200+7320100+7330000+ 7340000+7350100+7350200+7350300+7350400+7350500+7350600+7360100 +7390000+7450100+7450200+7450300+7450400+7450500+7450900+ 7460100+7460200+7460300+7460900)	02	0	0
2.	**Revenues from economic activities** (accounts 7210000+7220000+7510100+7510200+/-7090000)	03	0	0
3.	**Grants, subsidies, transfers** (accounts 7510500+7710000+7720100+7720200+ 7740100+ 7740200+7750000+7760000+7780000+7790101+7790109)	04	104,105	33,222
4.	**Other operational revenues** (accounts 7140000+7180000+7500000+7510300+ 7510400+ 7810200+7810300+7810401+7810402+7770000)	05	175,728,468	182,002,355
	TOTAL OPERATIONAL REVENUES (rows 02+03+04+05)	06	175,832,573	182,035,577
II.	**OPERATIONAL EXPENSES**	07		
1.	**Wages and social contributions for the employees** (accounts 6410000+6420000+ 6450100+6450200+6450300+6450400+ 6450500+6450600+6450800+ 6460000+6470000)	08	96,421,069	108,299,282
2.	**Subsidies and transfers** (accounts 6700000+6710000+6720000+6730000+ 6740000+ 6750000+ 6760000+6770000+6780000+6790000)	09	4,345,223	5,372,926
3.	**Inventories, consumables, third-party works and services** (accounts 6010000+ 6020100+6020200+6020300+6020400+6020500+6020600+6020700+ 6020800+6020900+6030000+6060000+6070000+6080000+6090000+ 6100000+6110000+6120000+6130000+6140000+6220000+6230000+ 6240100+6240200+6260000+6270000+6280000+6290100)	10	18,016,987	12,237,578
4.	**Capital expenses, depreciation and provisions** (accounts 6290200+6810100+ 6810200+6810300+6810401+6810402+6820101+6820109+6820200+ 6890100+6890200)	11	21,122,065	25,795,084
5.	**Other operational expenses** (Accounts 6350000+6350100+6540000+6580101+ 6580109)	12	712,655	94,255
	TOTAL OPERATIONAL EXPENSES (rows 08+09+10+11+12)	13	140,617,999	151,799,125
III.	**OPERATIONAL ACTIVITY BALANCE SHEET**	14		
	- PROFIT (row 06- row 13)	15	35,214,574	30,236,452
	- LOSS (row 13- row 06)	16		
IV.	**FINANCIAL REVENUES** (accounts 7630000+7640000+7650100+7650200+ 7660000+ 7670000+7680000+7690000+7860300+7860400)	17	1,482,095	1,421,461
V.	**FINANCIAL EXPENSES** (accounts 6630000+6640000+6650100+6650200+ 6660000+6670000+ 6680000+6690000+6860300+6860400+6860800)	18	152,803	40,463
VI.	**FINANCIAL ACTIVITY BALANCE SHEET**	19		
	- PROFIT (row 17- row 18)	20	1,329,292	1,380,998
	- LOSS (row 18- row 17)	21		
VII.	**CURRENT ACTIVITY BALANCE SHEET**	22		
	- PROFIT (rows 15+20-16-21)	23	36,543,866	31,617,450
	- LOSS (rows 16+21-15-20)	24		
VIII.	**INCIDENTAL REVENUES** (account 7910000)	25	513,121	219,196
IX.	**INCIDENTAL EXPENSES** (accounts 6900000+6910000)	26	0	0
X.	**BALANCE SHEET RESULTED FROM INCIDENTAL ACTIVITIES**	27		
	- PROFIT (row 25-row 26)	28	513,121	219,196
	- LOSS (row 26-row 25)	29		
XI.	**ASSET-BASED BALANCE SHEET FOR THE FINANCIAL YEAR (GROSS)**	29.1		
	- PROFIT (rows 23+28-24-29)	29.2	37,056,987	31,836,646
	- LOSS (rows 24+29-23-28)	29.3		
	Expenditure incurred by profit tax (from account 635 *)	29.4	0	0

Cash-flow status as of 31.12.2016

-lei-

INDICATORS	Row Code	TOTAL	5310101	5600101*, 770*	Other available sources (account 5xx)
A	**B**	**1**	**2**	**10**	**15**
I. CASHFLOW FROM OPERATIONAL ACTIVITIES	**1**			172,028,104	12,846
1. Inflows	**2**	172,608,340	567,390	125,257,276	2,700
2. Outflows	**3**	125,827,366	567,390	**46,770,828**	10,146
3. Net cash-flow resulted from operational activities (row 02- row 03)	**4**	**46,780,974**	**0**		
II. CASHFLOW FROM INVESTMENT-BASED ACTIVITIES	**5**			0	0
1. Inflows	**6**	0	0	8,752,068	0
2. Outflows	**7**	8,752,068	0	**-8,752,068**	**0**
3. Net cash-flow resulted from investment-based activities (rows 06-07)	**8**	**-8,752,068**	**0**		
III. CASHFLOW FROM FINANCING ACTIVITIES	**9**			-30,000,000	0
1. Inflows	**10**	-30,000,000	0	0	0
2. Outflows	**11**	0	0	**-30,000,000**	**0**
3. Net cash-flow resulted from financing activities (row 10-row 11)	**12**	**-30,000,000**	**0**	**8,018,760**	**10,146**
IV. NET INCREASE (DECREASE) OF CASH AND CASH EQUIVALENT (row 04+row 08+row 12)	**13**	**8,028,906**	**0**	18,695,562	0
V. CASH AND CASH EQUIVALENT AT THE BEGINNING OF THE YEAR	**14**	18,695,562	0	0	**x**
- amounts recovered from the surplus recorded during the previous year**)	**14.1**	0	**X**	0.00	0
- amounts used from the surplus recorded during the previous year/amounts transferred from the surplus to the local budget/amounts transferred from the surplus in order to set up treasury deposits***)	**14.2**	0	**x**	0.00	0
Amounts transferred from the surplus that had not been used by the end of the previous year****)	**14.3**	0	**x**	18,693,512.00	0

TREASURY CASHFLOW STATUS recorded with commercial banks as of 31.12.2016

-lei-

INDICATORS	Row Code	Total	5310402	5500102, 5600402, 5120402, 550
A	**B**	**1**	**2**	**3**
I. CASHFLOW FROM OPERATIONAL ACTIVITIES	**01**			
1. Inflows	**02**	47,476,702	1,022,343	46,454,359
2. Outflows	**03**	29,038,005	1,022,298	28,015,707
3. Net cash-flow resulted from operational activities (row 02- row 03)	**04**	**18,438,697**	**45**	**18,438,652**
II. CASHFLOW FROM INVESTMENT-BASED ACTIVITIES	**05**			
1. Inflows	**06**	0	0	0
2. Outflows	**07**	0	0	0
3. Net cash-flow resulted from investment-based activities (rows 06-07)	**08**	**0**	**0**	**0**
III. CASHFLOW FROM FINANCING ACTIVITIES	**09**			
1. Inflows	**10**	0	0	0
2. Outflows	**11**	0	0	0
3. Net cash-flow resulted from financing activities (row 10-row 11)	**12**	**0**	**0**	**0**
IV. NET INCREASE (DECREASE) OF CASH AND CASH EQUIVALENT (row 04+row 08+row 12)	**13**	18,438,697	45	18,438,652
V. CASH AND CASH EQUIVALENT AT THE BEGINNING OF THE YEAR	**14**	22,690,730	0	22,690,730
1. Favourable exchange rate differences	**15**	9,673	89	9,584
2. Unfavourable exchange rate differences	**16**	30,298	134	30,164
VI. CASH AND CASH EQUIVALENT BY THE END OF THE YEAR (rows 13+14 +15-16)	**17**	41,108,802	0	41,108,802

FSA REVENUES AND EXPENSES PROGRESS FOR 2016

-lei-

INDICATORS	Budget Code	Annual estimations for 2016	Cumulated progress by 31.12.2016	Achievement degree
1	2	3	4	5=4/3
TOTAL REVENUES, of which:		**149,748,192**	**174,121,094**	**116**
Revenues from transactions with financial instruments and public offerings, of which:	**36.10.50**	**8,404,100**	**17,150,195**	**204**
Revenues from the overall value of transactions with financial instruments undertaken on regulated markets, except for transactions with derivatives	36.10.50	6,100,000	4,716,423	77
Fees applicable to transactions with derivatives undertaken on regulated markets	36.10.50	600	118	70
Fees collected for monitoring transactions undertaken outside the regulated markets (turnaround)	36.10.50	453,500	465,146	103
Fees collected for monitoring transactions with derivatives undertaken outside the regulated markets	36.10.50	0	0	
Revenues from IPO's value	36.10.50	1,150,000	1,144,031	99
Revenues from public acquisition/take over offerings value	36.10.50	700,000	10,824,477	1,546
Fees and tariffs applicable for the operation/management/supervision of undertakings for collective investments, private pension funds and insurers/insurance brokers/re-insurance brokers	**36.10.50**	**128,938,892**	**146,714,413**	**114**
Monthly fee from the value of net assets of investments funds (undertakings for collective investments)	36.10.50	38,000,000	37,010,581	97
Monthly fee from the value of net assets of privately managed pension funds (2nd pillar)	36.10.50	25,660,000	25,780,549	100
Monthly tariff from the value of gross contributions cashed in by the private pension funds (2nd pillar)	36.10.50	16,234,000	17,445,844	107
Monthly fee from the value of net assets of voluntary pension funds (3rd pillar)	36.10.50	1,722,974	1,749,877	102
Monthly tariff from the value of gross contributions cashed in by the voluntary pension funds (3rd pillar)	36.10.50	606,518	682,667	113
Operational tariff applicable to depositories of pension funds with private management	36.10.50	397,000	393,643	99
Operational tariff applicable to insurers and insurance brokers	36.10.50	23,000,000	28,142,057	122
Contributions to the development and maintenance of CEDAM database and to the supervision and control of mandatory vehicle insurance (RCA) activities	36.10.50	23,318,400	35,509,195	152
Revenues from other activities, of which:	**36.10.50**	**9,185,200**	**6,690,951**	**73**
Tariff/tax for processing requests for authorization/permits/approval/certification and withdrawal of authorization for regulated entities	36.10.50	1,500,000	1,080,928	72
Tariff/tax for registration/recording/maintaining/erasing from/in the FSA records and registries	36.10.50	785,200	320,100	41
Fees/tariffs/tax collected for monitoring of entities regulated by FSA, as stipulated under art. 2 para. (1) letter a) of the Government Emergency no. 93/2012 on the establishment, organisation and functioning of the Financial Supervisory Authority approved by Law no.113/23.04.2013, as amended and completed (GEO no. 93/2012), except for investment companies	36.10.50	6,800,000	5,273,923	90
Tariffs and fees from other activities undertaken by FSA	36.10.50	100,000	16,000	15
Fines	**35.01.02**	**150,000**	**179,761**	**130**
Various revenues, of which		**3,070,000**	**3,031,191**	**98**
Financial revenues	31.03.00	2,000,000	1,094,542	55
Revenues from leases	30.05.30	910,000	910,366	100
Other revenues	36.10.50	160,000	1,026,283	641
Payments incurred during the previous years and recovered during the current year	**36.32.00**		**354,583**	
TOTAL EXPENSES, of which:	**80.01.30**	**164,090,101**	**134,784,000**	**82**
CURRENT EXPENDITURE	**80.01.30**	**144,988,781**	**126,031,564**	**87**
STAFF-RELATED EXPENSES, of which	**80.01.30.10.**	**117,452,808**	**108,569,441**	**92**
Wage related expenses in cash	80.01.30.10.01	94,451,000	88,114,822	93
Basic salaries	80.01.30.10.01.01	77,390,000	73,232,931	95
Bonus funds	80.01.30.10.01.08	13,440,000	12,979,282	97
Allowances paid for persons outside own staff	80.01.30.10.01.12	110,000	51,858	47
Allowances	80.01.30.10.01.13	660,000	658,030	98
Other wage-related expenses in cash (social benefits, redundancy payments)	80.01.30.10.01.30	2,851,000	1,192,721	42
Wage related expenses in kind	80.01.30.10.02	4,427,896	2,219,535	50
Vouchers	80.01.30.10.02.01	1,100,000	1,011,542	92
Holidays vouchers	80.01.30.10.02.06	1,627,896	0	0.00
Other wage-related benefits in kind (benefits packages, gifts for children)	80.01.30.10.02.30	1,700,000	1,207,993	71
Contributions, of which:	80.01.30.10.03	18,573,912	18,235,084	98

Social insurance contributions	80.01.30.10.03.01	12,088,000	11,947,887	99
Unemployment insurance contributions	80.01.30.10.03.02	463,120	424,289	92
Health insurance contributions	80.01.30.10.03.03	4,683,632	4,562,796	97
Contributions for insurance related to occupational diseases and accidents	80.01.30.10.03.04	140,874	133,993	95
Contributions to medical leaves and allowances	80.01.30.10.03.06	1,198,286	1,166,119	97
Goods and services	**80.01.30.20.**	**21,753,973**	**12,089,197**	**56**
Goods and services	80.01.30.20.01	7,864,520	4,960,264	65
Office supplies	80.01.30.20.01.01	773,980	240,826	31
Cleaning supplies	80.01.30.20.01.02	100,000	8,134	8
Heating, lighting	80.01.30.20.01.03	1,035,000	745,587	72
Water supply, sewage, waste	80.01.30.20.01.04	100,000	62,266	62
Fuel and oils	80.01.30.20.01.05	300,000	213,636	71
Spare parts	80.01.30.20.01.06	100,000	71,138	71
Post, communication services, radio, TV, internet	80.01.30.20.01.08	595,680	380,979	64
Materials and services for operational purposes	80.01.30.20.01.09	357,980	285,921	80
Other goods and services for maintenance and operational purposes	80.01.30.20.01.30	4,501,880	2,951,777	68
Current repairs	80.01.30.20.02.00	140,000	40,780	29
Inventory goods	80.01.30.20.05	276,800	208,702	75
Other inventory goods	80.01.30.20.05.30	276,800	208,702	75
Travel expenses	80.01.30.20.06	1,303,303	957,389	75
Internal travel expenses, assignments, transfer of staff	80.01.30.20.06.01	275,000	206,234	75
External travel expenses	80.01.30.20.06.02	1,028,303	751,155	74
Literature, publications and documentation materials	80.01.30.20.11.00	55,000	47,426	86
Consultancy and know-how	80.01.30.20.12.00	4,074,000	487,825	12
Vocational training	80.01.30.20.13.00	386,000	215,488	56
Health and safety-related expenses	80.01.30.20.14.00	380,000	276,462	73
Judicial and extra-judicial expenses	80.01.30.20.25.00	50,000	15,488	31
Other expenditure	80.01.30.20.30	7,224,350	4,879,373	68
Advertising and publicity	80.01.30.20.30.01	63,800	30,542	48
Hospitality and representation expenses	80.01.30.20.30.02	606,600	599,015	99
Non-life insurance premiums	80.01.30.20.30.03	180,000	57,402	32
Rentals	80.01.30.20.30.04	4,136,000	3,942,548	95
Other expenditure related to goods and services	80.01.30.20.30.30	2,237,950	249,866	11
TRANSFERS – subscription fees to international bodies	**80.01.30.55.**	**5,782,000**	**5,372,926**	**93**
External transfers	80.01.30.55.02	5,782,000	5,372,926	93
Subscriptions and fees paid to international bodies	80.01.30.55.02.01	5,782,000	5,372,926	93
Capital expenses	**80.01.30.70.**	**19,101,320**	**8,752,436**	**46**
Non-financial assets - Title X	**80.01.30.71.**	**19,101,320**	**8,752,436**	**46**
Fixed assets	80.01.30.71.01	19,101,320	8,752,068	46
Buildings	80.01.30.71.01.01	500,000	0	0.00
Machinery, equipment and transport vehicles	80.01.30.71.01.02	6,750,860	5,747,973	85
Furniture, office equipment and tangible assets	80.01.30.71.01.03	300,000	165,739	55
Other fixed assets	80.01.30.71.01.30	11,550,460	2,838,724	25
CURRENT PROFIT/LOSS		**-14,341,909**	**39,337,094**	

REPORT ON BALANCE SHEET AND THE ECONOMIC OUTTURN ACCOUNT DRAFTED ON 31.12.2016

Non-current assets (tangible and intangible assets, financial assets) decreased mainly as a result of the fact that a part of financial investments included in the balance sheet at the beginning of the year as Government securities with a maturity more than 1 year were reinvested as Government securities with a maturity less than 1 year.

Total assets on 31.12.2016 increased by Lei 31,900,644 , **an increase resulted from the financial resources accumulated** during 2016.

Total debts in the balance sheet by 31.12.2016, amounting to Lei **54,624,906 includes mostly provisions for litigations, redundancies, paid annual leaves that had not been taken**.

The estimated value of recognised litigations included in financial accounts is Lei **36,926,610** , of which **the amount of provisions for labour-related litigations in which FSA has been involved is Lei 22,419,900** .

The other provisions for property-related litigations, as well as provisions for paid annual leaves not taken, provisions for retirement of staff, were assessed to the amount of Lei 14,506,710 .

The other debts mostly represent **staff compensations related to December paid in January 2017.** The result carried over increased due to including the profits from the previous year.

The economic outturn is a positive one, up from the one recorded during the previous year, a growth resulted from returning the non-current provisions for property-related litigations to the revenues chapter, in case of those litigations which had been settled/where the chances to win the case have been recalculated.

Budget implementation report

According to the provisions of art. 18 of GEO no. 93/2012 on the establishment, organisation and functioning of the Financial Supervisory Authority approved by Law no.113/2013, FSA is fully financed from own extra-budgetary revenues. The structure of revenues, as well as their level is regulated through Regulation no. 16/2014 on the FSA revenues.

The expenses are set down through the annual FSA budget, according to its objectives and tasks.

The current profit recorded during the FSA budget implementation was of

The budget implementation account includes under the revenues chapter - all the collected amounts, while under the expenditure chapter - all payments incurred. The budgetary profit is determined as the difference between the collected amounts and the payments made.

REVENUES collected in 2016 were received based on Regulation no.16/2014 on FSA revenues, as further amended and supplemented (in 2016, amendments were made starting from 01 August 2017, through Regulation no.7/2016).

Revenues collected from the core business amounted to Lei 174,121,094 (Eur[1] 38,772,845), representing a degree of achievement of 116% compared to related estimations. Compared to the revenues collected in 2015, amounting to Lei 157,267,248 , **the amount collected in 2016 is 11% higher.**

Status of FSA revenues in 2016 divided per categories

-lei-

Budget category	Annual estimations for 2016	Cumulated progress by 31.12.2016	Achievement degree
0	**1**	**2**	**3=2/1**
Revenues from transactions with financial instruments and public offerings	8,404,100	17,150,195	204
Fees and tariffs applicable for the operation/management/supervision of undertakings for collective investments, private pension funds and insurers/insurance brokers/re-insurance brokers	128,938,892	146,714,413	114
Revenues from other activities	9,185,200	6,690,951	73
Fines	150,000	179,761	120
Other revenues	3,070,000	3,031,191	99
Payments incurred during the previous years and recovered during the current year		354,583	
TOTAL REVENUES	**149,748,192**	**174,121,094**	**116**

Progress of FSA revenues in 2015-2016, by categories

-lei-

Budget category	Budget execution 2015	Budget execution 2016	Growth (%)
0	**1**	**2**	**3=2/1**
Revenues from transactions with financial instruments and public offerings	6,287,407	17,150,195	273
Fees and tariffs applicable for the operation/management/supervision of undertakings for collective investments, private pension funds and insurers/insurance brokers/re-insurance brokers	138,583,758	146,714,413	106
Revenues from other activities	9,030,424	6,690,951	74
Fines	260,785	179,761	69
Other revenues	3,109,874	3,031,191	97
Payments incurred during the previous years and recovered during the current year	1,064,049	354,583	33
TOTAL REVENUES	**157,267,248**	**174,121,094**	**116**

[1] The average exchange rate calculated for 2016, according to the NBR data was of 1 EUR = 4.4908 lei.

Revenues from *fees related to transactions with financial instruments and public offerings* recorded a volume of amounts received in 2016 of Lei 17,150,195 , representing **204%** of the estimations for this period. The most relevant fees included in this category of revenues are presented below:

- A fee resulted from the value of transactions with financial instruments undertaken on regulated markets, except for transactions with derivatives (up to 0.06%) – Lei 4,716,423 - degree of achievement 77% compared to the estimations for this period, as a result of a decrease in the volume of transactions undertaken on the Stock Exchange. Compared to the previous year, the revenues coming from this source decreased by 10%.
- A fee resulted from the value of public offerings for sale (ranging from 0.05% to 0.1%, no more than Lei 500,000 , respectively Lei 1,000,000) – Lei 1,144,031 - degree of achievement 99% compared to the estimations for this period
- Fee resulted from the value of public offerings for buying -take over operations (ranging from 1% to 1.5%) – Lei 10,824,477 – degree of achievement 1,546%, 7348% higher compared to the achievements of the previous year.

The significant excess compared to estimated revenues from this sources is due to the implementation of two major public offerings in September 2016: **a public offering for the takeover of Albalact and a public offering for buying implemented by the Proprietatea Fund, with a cumulated value of approximately Lei 9,000,000 . The revenues from such sources resulted in 2016, in approximately 10% of the total revenues of FSA over this period.**
Compared to the 2015 achievements, **the revenues collected from these sources increased by 173%.**
Revenues *from fees and tariffs applicable for the operation/management/supervision of undertakings for collective investments, private pension funds and insurers/insurance brokers/re-insurance brokers* recorded a volume of Lei **146,714,413,** in 2016, representing **114%** from the estimations for this period**.** The main sources of revenues for these categories are presented below:

- A fee of 0.0078% of the net asset value of investment funds (undertakings for collective investments) – Lei 37,010,581 – (achievement degree 97% compared to the estimated budget), 2% more compared to the achievements of the
- A fee of 0.0078% of the net asset value of pension funds privately managed and a monthly tax of 0.3% from the value of gross contributions collected by the private pension funds (second pillar) – Lei 43,226,393 – (achievement degree 103.18%), 27% more compared to the achievements of 2015.
- A fee of 0.01% of the net asset value of voluntary pension funds and a monthly tax of 0.25% from the value of gross contributions collected by the private pension funds (third pillar), as well as the operational tax applicable to depositories – Lei 2,432,544 – (achievement degree 104.42%). In 2016 such revenues decreased compared to 2015 (by 35.69%) as a result of quota reduced by 50% compared to the previous year.
- The operational tax of 0.3% applicable to insurers and insurance brokers (contribution to supervision and control of general activities - 0.4%, respectively for life insurances - 0.3% and the operational tax for brokers - 0.2%, as the Regulation no. 7/2016 entered into force) – Lei 28,142,057 – (achievement degree 122%), decreasing compared to the achievements of the previous period, by 5.18%.
- A contribution of 0.8% to the CEDAM database development and maintenance and also for supervision and control of vehicle civil liability insurance activities (contribution to supervision and control of vehicle civil liability mandatory insurance - 1%, as the Regulation no. 7/2016 entered into force) – Lei 35,509,195 , increasing compared to achievements in 2015 (Lei 32,530,967), by 9%

The revenues from such sources resulted in 2016, in approximately 84% of the total revenues of FSA over this period.
Compared to the 2015 achievements, **the revenues collected from these sources increased by 6%.**
As regards **outstanding claims**, we mention that, as of 31.12.2016, the following cases are recorded:

- The Proprietatea Fund is registered with an outstanding amount of Lei 1,704,822.85 , representing the apportioned share for the February-June 2016 debt, in relation to which the entity had notified FSA that the amount was offset as a result of forfeiture by FNI investors. DFA notified the Legal Department so that they should take the legal measures
- The Astra SA Insurance-Re-Insurance company is registered with an amount of Lei 1,759,042 , an amount based on which FSA was recorded in the body of creditors.
- Carpatica Asig is recorded with an amount of Lei 589,275 , representing an outstanding debt dating back to August 2016, and the company was notified in relation to this debt through Order for Payment on 18.10.2016, and the procedure for recovery/registration with the body of creditors.

Revenues from other activities, including revenues related to taxes, authorization/permit/approval/certification/withdrawal of authorization tariffs, monitoring fees/tariffs/taxes and other taxes/tariffs as stipulated by appendix no. 3 to Regulation no. 16/2014, as further amended and supplemented, amounted to a total value collected in 2016 of Lei 6,690,951 , lower by 27% compared to the amount estimated for this period. The most important share, approximately 80%, under this chapter is represented by revenues related to fees collected for monitoring the entities regulated by FSA within the Financial Instruments and Investments sector (a fee of 1% applied to the operational revenues of supervised entities).

The revenues from such sources resulted in 2016, in approximately 4% of the total revenues of FSA over this period.

Revenues from fines, applied to entities from the Insurance Re-Insurance sector – amounted to a value of Lei 179,761 , during the reference period, lower by 31% compared to the previous year.

The ***Other revenues*** **chapter** registered a value of **Lei 3,031,191 ,** lower compared to the estimations, by 1% and lower by 3% compared to 2015.

This chapter includes *financial revenues collected from investing FSA resources* in deposits, government securities – Lei 1,094,542 , *revenues from renting the buildings* owned by FSA – Lei 910,366 , *other revenues* lei 1,026,283 (debt recovery orders, penalties, return of sureties paid by the former CNVM in the FNI case, including the amounts returned by the employees of the former CSSPP as a result of court judgements issued in casefile no. 41924/2014 between FSA and the Court of Auditors).

TOTAL EXPENSES incurred in 2016 amounted to Lei 134,712,678 (Eur 29,997,479), representing a degree of achievement of 82% compared to estimations related to 2016. Compared to the revenues collected during the previous year, amounting to Lei 120,767,137 , the amount collected in 2016 is 12% higher.

Status of FSA expenditure for 2016

-lei-

Budget category	Annual estimations for 2016	Cumulated progress by 31.12.2016	Achievement degree compared to estimations (%)
0	**1**	**2**	**3=2/1**
STAFF-RELATED EXPENSES, of which	**117,452,808**	**108,569,441**	**92**
- **Wage related expenses in cash**	94,451,000	88,114,822	93
- **Wage related expenses in kind**	4,427,896	2,219,535	50
- **FSA contributions to the state budget and the social insurance budgets**	18,573,912	18,235,084	98
Goods and services-related expenditure	**21,753,973**	**12,089,197**	**56**
Fees paid to international bodies	**5,782,000**	**5,301,604**	**92**
Capital expenses	**19,101,320**	**8,752,436**	**46**
TOTAL EXPENDITURE	**164,090,101**	**134,712,678**	**82**

Progress of FSA expenses in 2015-2016, by categories

-lei-

Budget category	Budget execution 2015	Budget execution 2016	Growth (%)
1	**2**	**3**	**4=3/2**
Staff expenses	97,321,171	108,569,441	112
Goods and services	17,832,491	12,089,197	68
Interests	1,142	0	0
Fees paid to international bodies	4,318,652	5,301,604	123
Capital expenses	2,357,730	8,752,436	371
TOTAL EXPENDITURE	**121,831,186**	**134,712,678**	**111**

Staff related expenses, amounting to a total value of Lei **108,569,441** (93% of the budgetary forecasts)**,** represent basic salaries, bonuses, other allowances (such as: birth allowances, marriage allowances, medical leave allowances, funeral expenses, 200 lei/250 lei (starting from November 2016), voluntary pension fund covered by the employer), vouchers

and also the contributions paid by the institutions to be added to this amount. Also, in 2016, bonuses were awarded for projects amounting to Lei 2,448,871, an amount increased by 16% compared to 2015.

Staff-related expenses in 2016 represented around **80% of the total expenditure incurred by the institution**, respectively around **62% of the total revenues collected**.

Compared to 2015, **staff-related expenses increased in 2016 by 12%, and this growth was mainly due to the amendments in the Collective Labour Agreement** (e.g.: an increase by 100% of the December bonus, an increase of the amount for the benefits package).

Expenditure related to goods and services, amounting to a total of Lei **12,089,197** (56% of the budgetary forecasts) consisted from:

- *procurement of office supplies, cleaning supplies,* , fuel, payment of utilities, telephone and internet services, security services, vehicle repair services, maintenance of the heating systems, archiving services, press agencies (Bloomberg, Reuters) etc. – the amount paid in 2016 was Lei **4,960,264 ,** comparable to the one paid in 2015 and representing 65% of the amount estimated for this period;
- *domestic and foreign travel*: Lei **957,389 –** representing **74%** of the amount estimated for travel costs and other incidental expenses, excluding the allowance for travel (per diems and accommodation expenses, amounting to 658,030 lei, are included in staff-related expenses);
- *consultancy and know-how* – Lei **487,825** – represent **12%** of the budgetary estimates and these consist from payments made within the legal assistance, consultancy, financial audit services contracts. The low degree of usage for the amounts allocated under this chapter is due to the fact that, in 2016, no payment were made to the SAL-FIN mediators;
- *other expenditure*: Lei **4,879,373** , mostly consisting from payments representing the rent paid by FSA towards EximBank – Lei 3,942,548 (80.72%), expenditure for hospitality and representation purposes – Lei 599,015 , other expenses etc.

Compared to 2015, **expenses with goods and services decreased by approx. 32%, respectively from Lei 17,832,491** to Lei **12,089,197** (a decrease resulted mainly from ending the external contract for maintenance of CEDAM/ EWS database).

International transfers – represent fees paid to international bodies (ESMA, EIOPA, IOSCO, IAIS, IOPS) to which FSA is a member of – the total amount in 2016 was Lei **5,301,604 ,** within the limit of the approved budget of lei 5,782,000 . The recorded growth was determined by an increase in the fees paid to the budgets of international authorities, as well as due to the exchange rate.

Capital expenses, amounting to Lei **8,752,436** (45.82% of the estimated amount), represent the total amount paid in 2016 for: expansion of the security system for headquarters access – Lei 149,012 ; procurement of vehicles (first batch) - Lei 703,646; payments made within the project for development of decentralised infrastructure consisting from procurement of PCs, laptops – Lei 1,923,547; payments made within the project for centralised infrastructure consisting from procurement of hardware equipment and Oracle software licenses – Lei 2,989,930; FSA contribution to MFIR Instruments Reference Data project (implemented through ESMA) – Lei 107,469; other investments – Lei 443,277; project on implementation of printing-digitization solution - Lei 777,396.

Compared to 2015, **investments-related expenses were four times bigger, increasing from Lei 2,357,730 to Lei 8,752,435.** Investment-related expenses estimated and not implemented for 2016 were aimed at procurement of vehicles (second batch), as a result of cancellation of procurement procedures, at procurement of IT solutions for implementation of business intelligence, ERP, risk management, Solvency II.

CURRENT PROFIT for 2016 (current revenues collected - paid expenses)

Current profit for 2016 amounts to Lei **39,337,094** .

This profit has been achieved, on one hand, due to an increase of current revenues (**+16%**), mainly as a result of public offerings implemented as described under the "Revenues" chapter, and also as a result of collecting higher MTPL tariffs compared to the estimations, on the background of savings under the expenditure chapter **(- 18%),** and also due to

failure to implement a number of investment projects (capital expenses), which would incur in 2017 and in the following years.

In such conditions, **the cumulated profit by 2016**, respectively the current revenues collected + profit resulted from previous years – expenses incurred shall be Lei **150,554,128 (Eur 33,525,013), of which the profit carried over from previous years was** Lei 111,145,712 at 01.01.2016.

AUDITOR'S REPORT

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RAPORTUL AUDITORULUI INDEPENDENT
INDEPENDENT AUDITOR'S REPORT

Catre Consiliul Autoritatii de Supraveghere Financiara
To the Board of the Financial Supervisory Authority

Raport asupra situatiilor financiare
Report on the financial statements

Opinia
Opinion

Am auditat situatiile financiare anexate ale Autoritatii de Supraveghere Financiara ("ASF") care cuprind bilantul la data de 31 decembrie 2016, contul de rezultat patrimonial, situatia modificarilor in structura activelor nete/capitalurilor proprii, situatia fluxurilor de trezorerie, contul de executie a bugetului pentru exercitiul financiar incheiat la aceasta data si anexe (Disponibil din mijloace cu destinatie speciala, Situatia plaţilor efectuate din buget si nejustificate prin bunuri, lucrari, servicii la finele perioadei, Plati restante, Situatia activelor si datoriilor financiare ale institutiilor publice din Administratia centrala, Situatia activelor fixe amortizabile, Situatia activelor fixe neamortizabile) cat si un sumar al politicilor contabile semnificative si alte note explicative incluse in « Raportul de analiza pe baza de bilant incheiat la data de 31 decembrie 2016 şi executia bugetului de venituri si cheltuieli la 31 decembrie 2016».

We have audited the accompanying financial statements of Financial Supervisory Authority („ASF"), which comprise the balance sheet as at 31 December 2016, and the income statement, statement of changes in the structure of net assets/equity, the cash flow statement, budget execution account for the year then ended and appendices (Special purpose amounts, Statement of payments from budget and not justified through goods, works, services at the end of period, Overdue payments, Statement of assets and liabilities of public institutions from Central Administration, Statement of fixed assets to be depreciated, Statement of fixed assets not to be depreciated) and a summary of significant accounting policies and other explanatory notes included in the "Report for analysis of the balance sheet and budget execution as at as at 31 December 2016".

In opinia noastra, situatiile financiare anexate ofera o imagine fidela si justa a pozitiei financiare a ASF la data de 31 decembrie 2016, ca si a performantei financiare si a fluxurilor de numerar ale acesteia pentru exercitiul financiar incheiat la aceasta data, in conformitate cu Ordinul Ministrului Finantelor Publice nr. 1917/2005, cu modificarile si clarificarile ulterioare si cu politicile contabile descrise in « Raportul de analiza pe baza de bilant incheiat la data de 31 decembrie 2016 si executia bugetului de venituri si cheltuieli la 31 decembrie 2016».

Traducerea in limba engleza are doar scop informativ. Traducerea raportului trebuie citita impreuna cu situatiile financiare, luate in ansamblu. In situatiile in care informatiile, punctele de vedere si opiniile sunt susceptibile de interpretare, versiunea originala in limba romana a raportului nostru prevaleaza acestei traduceri.

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In our opinion, the accompanying financial statements give a true and fair view of the financial position of ASF as at 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with the Order of the Minister of Public Finance no. 1917/2005 and subsequent amendments and the accounting policies described in the "Report for analysis of the balance sheet and budget execution as at as at 31 December 2016"

Bazele opiniei
Basis for opinion

Noi am efectuat auditul conform Standardelor Internationale de Audit (ISA). Responsabilitatile noastre conform acestor standarde sunt descrise mai detaliat in sectiunea „Responsabilitatile auditorului pentru auditul situatiilor financiare" din raportul nostru. Suntem independenti fata de Societate conform Codului etic al profesionistilor contabili emis de Consiliul pentru Standarde Internationale de Etica pentru Contabili (codul IESBA) si conform cerintelor etice care sunt relevante pentru auditul situatiilor financiare in Romania si ne-am indeplinit responsabilitatile etice conform acestor cerinte si conform Codului IESBA. Consideram ca probele de audit pe care le-am obtinut sunt suficiente si adecvate pentru a constitui baza pentru opinia noastra.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. We are independent of ASF in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to the audit of the financial statements in Romania, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Alte aspecte
Other matters

Situatiile financiare ale ASF pentru exercitiul financiar incheiat la 31 decembrie 2015 au fost auditate de catre un alt auditor, care a exprimat o opinie cu rezerve asupra acestor situatii financiare la data de 12 februarie 2016, datorita unor aspecte privind provizionul de restructurare care se referea la exercitiul financial incheiat la 31 decembrie 2013, fara a avea un impact in exercitiul financiar incheiat la 31 decembrie 2015.

The financial statements of ASF for the year ended 31 December 2015 were audited by another auditor who expressed a qualified opinion on those statements on 12 February 2016, because of a matter related to restructuring provision which relates to the year ended 31 December 2013, without any impact in the financial year ended 31 December 2015.

Traducerea in limba engleza are doar scop informativ. Traducerea raportului trebuie citita impreuna cu situatiile financiare, luate in ansamblu. In situatiile in care informatiile, punctele de vedere si opiniile sunt susceptibile de interpretare, versiunea originala in limba romana a raportului nostru prevaleaza acestei traduceri

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Responsabilitatile conducerii si ale persoanelor responsabile cu guvernanta pentru situatiile financiare
Responsibilities of Management and those charged with governance for the Financial Statements

Conducerea ASF are responsabilitatea intocmirii si prezentarii fidele a situatiilor financiare in conformitate cu Ordinul Ministrului Finantelor Publice nr. 1917/2005, cu modificarile si clarificarile ulterioare si cu politicile contabile descrise in « Raportul de analiza pe baza de bilant incheiat la data de 31 decembrie 2016 si executia bugetului de venituri si cheltuieli la 31 decembrie 2016», si pentru acel control intern pe care conducerea il considera necesar pentru a permite intocmirea de situatii financiare care sunt lipsite de denaturari semnificative, cauzate fie de frauda, fie de eroare.

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the Order of the Minister of Public Finance no. 1917/2005 and subsequent amendments and the accounting policies described in the "Report for analysis of the balance sheet and budget execution as at as at 31 December 2016", and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

La intocmirea situatiilor financiare, conducerea este responsabila sa evalueze abilitatea ASF de a-si desfasura activitatea conform principiului continuitatii activitatii si sa prezinte, daca este cazul, aspectele referitoare la continuitatea activitatii si folosirea principiului continuitatii activitatii, mai putin in cazul in care conducerea intentioneaza sa lichideze ASF sau sa ii inceteze activitatea sau nu are nicio alternativa reala decat sa procedeze astfel.

In preparing the financial statements, management is responsible for assessing ASF's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate ASF or to cease operations, or has no realistic alternative but to do so

Persoanele responsabile cu guvernanta au responsabilitatea supravegherii procesului de raportare financiara a ASF.

Those charged with governance are responsible for overseeing the ASF's financial reporting process.

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Responsabilitatile auditorului pentru auditul situatiilor financiare
Auditor's Responsibilities for the Audit of the Financial Statements

Obiectivele noastre constau in obtinerea unei asigurari rezonabile privind masura in care situatiile financiare, luate in ansamblu, nu contin denaturari semnificative cauzate de eroare sau frauda si de a emite un raport de audit care sa includa opinia noastra. Asigurarea rezonabila reprezinta un nivel ridicat de asigurare, insa nu este o garantie ca un audit desfasurat in conformitate cu standardele ISA va detecta intotdeauna o denaturare semnificativa, daca aceasta exista. Denaturarile pot fi cauzate fie de frauda fie de eroare si sunt considerate semnificative daca se poate preconiza, in mod rezonabil, ca acestea, atat la nivel individual sau luate in ansamblu, vor influenta deciziile economice ale utilizatorilor, luate in baza acestor situatii financiare.

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Ca parte a unui audit in conformitate cu standardele ISA, ne exercitam rationamentul profesional si ne mentinem scepticismul profesional pe intreg parcursul auditului. De asemenea:

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identificam si evaluam riscurile de denaturare semnificativa a situatiilor financiare, cauzate fie de frauda fie de eroare, stabilim si efectuam proceduri de audit care sa raspunda acestor riscuri si obtinem probe de audit suficiente si adecvate pentru a constitui o baza pentru opinia noastra. Riscul de nedetectare a unei denaturari semnificative cauzate de frauda este mai ridicat decat cel de nedetectare a unei denaturari semnificative cauzate de eroare, deoarece frauda poate include complicitate, falsuri, omisiuni intentionate, declaratii false sau evitarea controlului intern.

- *Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.*

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- Intelegem controlul intern relevant pentru audit pentru a stabili procedurile de audit adecvate in circumstantele date, dar nu si in scopul exprimarii unei opinii asupra eficacitatii controlului intern al ASF.
- *Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of ASF's internal control.*
- Evaluam gradul de adecvare a politicilor contabile utilizate si rezonabilitatea estimarilor contabile si a prezentarilor aferente de informatii realizate de catre conducere.
- *Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.*
- Concluzionam asupra caracterului adecvat al utilizarii de catre conducere a principiului continuitatii activitatii si determinam, pe baza probelor de audit obtinute, daca exista o incertitudine semnificativa cu privire la evenimente sau conditii care ar putea genera indoieli semnificative privind capacitatea ASF de a-si continua activitatea. In cazul in care concluzionam ca exista o incertitudine semnificativa, trebuie sa atragem atentia, in raportul de audit, asupra prezentarilor aferente din situatiile financiare sau, in cazul in care aceste prezentari sunt neadecvate, trebuie sa ne modificam opinia. Concluziile noastre se bazeaza pe probele de audit obtinute pana la data raportului nostru de audit. Cu toate acestea, evenimente sau conditii viitoare pot determina ca ASF sa nu isi mai desfasoare activitatea in baza principiului continuitatii activitatii.
- *Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ASF's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause ASF to cease to continue as a going concern.*
- Evaluam prezentarea, structura si continutul general al situatiilor financiare, inclusiv al prezentarilor de informatii, si masura in care situatiile financiare reflecta tranzactiile si evenimentele de baza intr-o maniera care realizeaza prezentarea fidela.
- *Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation*

Traducerea in limba engleza are doar scop informativ. Traducerea raportului trebuie citita impreuna cu situatiile financiare, luate in ansamblu. In situatiile in care informatiile, punctele de vedere si opiniile sunt susceptibile de interpretare, versiunea originala in limba romana a raportului nostru prevaleaza acestei traduceri.

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Comunicam persoanelor responsabile cu guvernanta, printre alte aspecte, obiectivele planificate si programarea in timp a auditului, precum si constatarile semnificative ale auditului, inclusiv orice deficiente semnificative ale controlului intern, pe care le identificam pe parcursul auditului nostru.
We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

In numele
On behalf of

Ernst & Young Assurance Services SRL

Inregistrat la Camera Auditorilor Financiari din Romania
Cu nr. 77/15 august 2001
Registered with the Chamber of Financial Auditors in Romania
Nr. 77/15 August 2001

Ernst & Young Assurance Services S.R.L.
17 FEB 2017
Semnat in scopul identificarii

Numele semnatarului: Anamaria Cora
Name of signing person: Anamaria Cora

Inregistrat la Camera Auditorilor Financiari din Romania
Cu nr. 1593 / 16 august 2005
Registered with the Chamber of Financial Auditors in Romania
Nr. 1593 / 16 August 2005

Bucuresti, Romania
17 februarie 2017

Bucharest, Romania
17 February 2017

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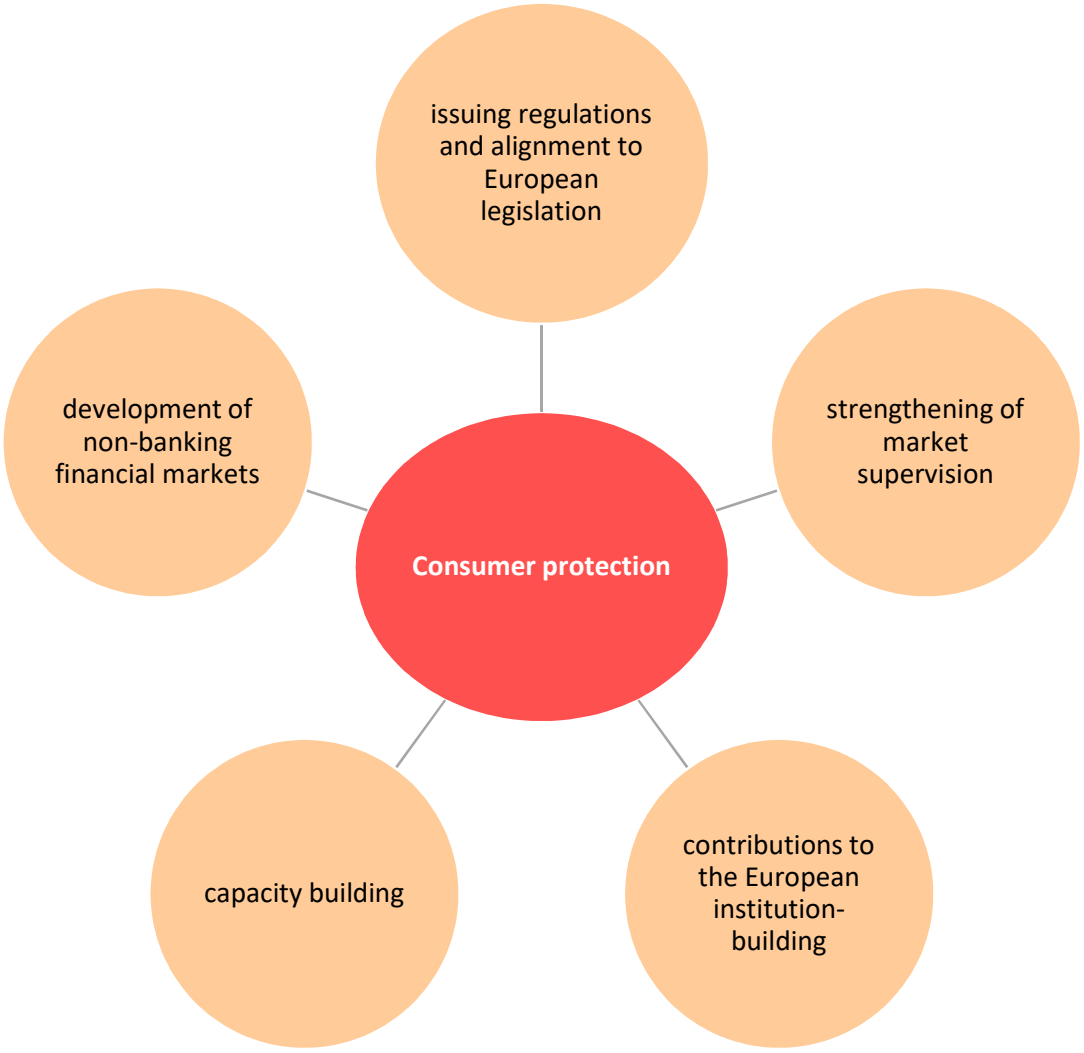
Strategic Objectives for 2017

Strategic Objectives for 2017

FSA will focus its work on ensuring the sustainability of the strategic objectives initiated in 2016. In addition, FSA's Strategic Programme for 2017 is aimed at:

- Maintaining the orderly and proper operation of markets
- Correlating with the European legislation and international best practices
- Increasing the investors' trust in the on-banking financial marekt and their level of protection

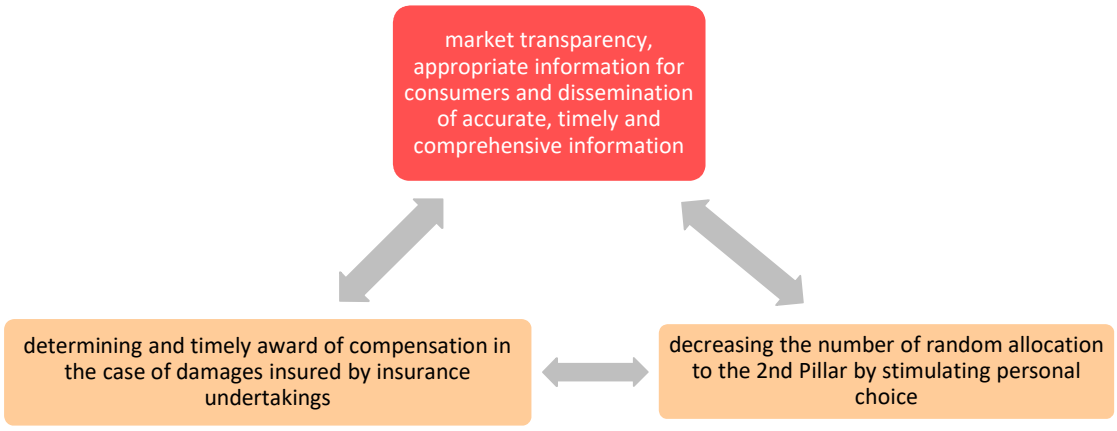


Consumer Protection

According to the applicable regulations, all the responsibilities incumbent on the Financial Supervisory Authority are circumscribed to the fundamental objective of protecting the consumers of financial products provided by the non-banking market. Thus, the market and market entities regulatory and supervisory efforts are related to this permanent objective of consumer protection, with a continuing focus on monitoring the consumer risks and benefits, as well as conduct, in particular those derived from market evolutions. FSA will focus on:

preventive actions, financial information and education, monitoring of potentially abusive, disloyal or fraudulent practice	countering potential shortcomings through corrective measures	*mystery shopping*
analysis of the method for settling the claims for compensation	analysis of consumer impact for various financial services and products	system of compliance and behaviour indicators
supervision of the regulated entities' behaviour	adoption of appropriate measures where violations have been found as result of notifications	reactive actions taken for processing complaints and notifications submitted by consumers

The main concerns of FSA – comprised of the specific and permanent consumer protection objectives for all areas under the responsibility of FSA are:



FSA will redesign the market professionals' training system, by defining a qualification system for the non-banking market, involvement of the Institute for Financial Studies in quality management, and in examination and assessment of skills, by moving on from accumulation of knowledge to accumulation of skills and correlation with the requirements of IDD, MIFID II and SQF/EQF.

Activities targeted for 2017 are supporting those already undertaken during the previous years:

- ✓ Improving transparency and information and enhancing quality of the support provided to consumers;
- ✓ Developing national financial educational programmes supporting the Romanian educational system and meeting the consumers' needs, such as to increase their protection;
- ✓ Promote fair and equitable practices in financial services;
- ✓ Monitoring the conduct of entities on the markets regulated and supervised by FSA – reviewing causes of claims, damage payments and findings of "mystery shopping" projects;
- ✓ Dealing with substantiated claims, in order to protect consumers' legal rights and interests;
- ✓ Implementing an IT-based claims management system.

The following actions will also be continued in 2017:

- Coordinating the consultative working group on protection of consumers of non-banking financial services;
- Coordination with the principles of European legislation in alternative settlement of consumer litigations, including by coordinating the establishment of the Arbitration Chamber attached to FSA;
- Increasing FSA's involvement in improving financial education of consumers, with the goal of raising financial awareness and responsibility, through the financial education component, as well as of reducing information asymmetry among the public at large;
- Continuing the efforts to enter partnerships and agreements with other state authorities and entities, in order to achieve the specific consumer protection objectives (NAPC, MAI, MESR etc.); public dissemination of consumer education and protection information and messages;
- Regular analysis of specific indicators for the protection of consumers of insurance services, such as to improve the conduct of insurance undertakings, such as to achieve high levels of conformity in terms of the products provided, conduct and fairness in dealing with and settling claims based on the legal /contract provisions;
- Revising secondary regulations in terms of settling insurance claims;
- Carrying out analyses and reviews of non-banking financial markets, for the purpose of protecting the consumer;
- Continuously monitoring the conduct of insurance undertakingss licensed to provide motor third-party liability insurance, through regular reviews of the manner in which the claims are dealt with, looking at compliance with legal deadlines for settlement and payment;
- Involving the Institute for Financial Studies in the training of conciliators, in order to support SAL-Fin – an independent entity of FSA, which facilitates the parties' negotiation and dialogue to settle the dispute before out of court;
- IFS's involvement in the development of the system for examination and assessment the skills of financial entities' experts;
- Increasing the penetration of SAL Fin among consumers, as an alternative to settling disputes on the markets regulated by FSA, by providing efficient operational flows, ensuring that as many as possible conciliations are finalised in time and at high levels of quality.

Regulation and Alignment to European Legislation

2017 will be a year of amendments in the capital market regulations.

A number of draft bills of law initiated in 2016 will be carried on into 2017:

- ✓ Draft *Law on issuers of financial instruments and market operations* – implements MAD and Directive 2013/50/EU on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market;
- ✓ *Law on financial instruments markets* – implements MIFID II and brings about a number of changes to the market infrastructure;
- ✓ Draft *Law on alternative investment funds* – provides a new legal framework for investment funds currently classified non-UCITS (other undertakings of collective investment).

Another objective for 2017 is established for the private pensions sector and consists of starting the transposition of the Directive on the activities and supervision of institutions for occupational retirement provision - IORP II.

For the insurance –reinsurance sector, the existing regulatory framework will be completed with a draft ***Law on distribution of insurance,*** an act that will transpose Directive 2016/97, with the implementation deadline in early 2018.

More over, the intentions for 2017 are the following :

- Developing an integrated rule for preventing money laundering – Reassessing the sector regulations issued by FSA in the area of money laundering and terrorism financing, for the purpose of developing an integrated rule for all financial entities under the regulatory, authorisation, supervisory and control of FSA, such as to ensure harmonisation with the requirements of Directive 849/2015 and the national/international relevant regulations;
- Developing an integrated rule in the field of international sanctions - Reassessing the sector regulations issued by FSA on the regime of international sanctions, for the purpose of developing an integrated rule for all financial entities under the regulatory, authorisation, supervisory and control of FSA, such as to ensure harmonisation with the requirements derived from the national regulatory framework. The development of this rule is correlated with the approval by the Parliament of the Law amending and supplementing GEO no. 202/2008 (currently a draft of the Inter-institutional Council);

EU Directives that are due for transposition in 2017 and that include provisions in areas where FSA has jurisdiction:

Directive (EU) 2016/1034 of 23 June 2016 amending Directive 2014/65/EU on markets in financial instruments (Transposition deadline: 3 July 2017)

Directive 2014/65/EU of 15 May 2014 on markets in financial instruments and amending Directive 2011/61/EU (Transposition deadline: 03 July 2016)

Directive (EU) 2015/849 of 20 May 2015 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing, amending Regulation (EU) No 648/2012 of the European Parliament and of the Council, and repealing Directive 2005/60/EC of the European Parliament and of the Council and Commission Directive 2006/70/EC (Transposition deadline: 26 June 2017) - FSA is not the main institution responsible for this process, however it will actively participate to the transposition of this directive.

Strengthening Markets Supervision

With a view to implementing the common supervision principles and practices in all the three sectors, the specific supervision objectives for 2017 cover:

- Developing sector risk indicators and the risks matrix for the Romanian market. This objective is circumscribed to the implementation as from January 1st 2016 of the Solvency II Directive. This prudential regime has brought about significant improvements in the supervision of insurance undertakings. The new approaches to risk assessment and heightened transparency requirements (requiring the insurance undertakings to report a complex set of data to the regulators), allow the development of new methods and indicators for identifying and monitoring these entities' risks. To this effect, since 2016, European and national efforts were initiated to adapt the set of risk indicators at micro- and macro- prudential level, such as to incorporate the new approaches and information available following the implementation of the Solvency II regime.
- Modernisation of sector risk indicators and risk matrixes for undertakings of collective investment and pension funds, backing on experience accumulated in the investment funds stress test of 2016. The approaches developed during this exercise and its findings and conclusions will be brought to fruition in 2017, in order to strengthen prudential supervision of investment funds, including by revising the formats and contents of the reports submitted by collective investment entities and by introducing new indicators for regular monitoring of risks in this sector.
- Continuing the development of systemic risk analyses and indicators for the non-banking financial sector and supporting the National Committee for Financial Oversight in its cooperation with the National Bank of Romanian and the Ministry of Finances. This objective is FSA's response to the ever higher attention paid at European and international level to the development of the macro-prudential supervision framework of the non-banking component of the financial system.

Furthermore, in the context of the new ESMA Strategy 2016-2018, FSA contributes to the development of the strategy on convergence of best supervision practices, by participating in the work of the Economic and Market Analysis Committee of ESMA (which FSA also presides). The Committee regularly monitors the trends, risks and vulnerabilities on European capital markets; also, the Committee started three projects of critical importance for national authorities and European institutions:

development of some risk indicators for the alternative investment funds sector in the context of AIFMD - a project coordinated by FSA representatives

analysis of the liquidity level for the European corporate bonds market

analysis of derivatives market for the EU interest rate

The financial instruments and investments sector continues throughout 2017 its efforts on convergence of EU supervision practice, initiated in 2016:

✓ Participating in the activities of transaction reporting workgroup, in order to prepare the entities for switching to the MIFID II reporting system;

- ✓ Identifying financial and prudential indicators, in order to evaluate the main risks and vulnerabilities for which supplementary supervision measures are required;
- ✓ Standardising reporting templates and developing the IT warning system for analysis, verification and identification of vulnerabilities, including the implementation of an early warning system, based on prudential indicators;
- ✓ Developing and implementing two IT projects initiated by ESMA for the EU supervisory authorities:
    - Data collection and processing for meeting the obligations assumed by FSA in the area of financial instruments, according to MIFID - FIRDS;
    - Common access interface to all EU central trade repositories - TRACE (Single access to Trade Repositories – the goal of the project is to develop an IT system as single access point to the data provided by central repositories);
- ✓ Revise and improve the reporting system for collective investment entities and asset/investment management companies, as well as implementing an electronic supervision system;
- ✓ Developing mechanisms and tools for preventing, identifying and sanctioning market abuse, given the expansion of the scope to a larger number of trading venues and financial instruments;
- ✓ Improving the activities aimed at ensuring compliance of issuers with the transparency requirements incumbent on them;
- ✓ Developing mechanisms to identify collusion cases and ensure compliance with the legal requirements in mandatory public offerings or with the limits of FIC share capital ownership;
- ✓ Developing the electronic capabilities for supervision of transactions on the regulated markets and alternative systems in Romania (IT applications for real-time and historic data analysis);
- ✓ Developing technical capabilities for the management of reports submitted via the TREM4 system (MiFIR Transaction Reporting – the project is aimed at facilitating the exchange of data on cross-border transactions between the relevant authorities of the Member States, according to MiFID/MIFIR, and will replace the current TREM system);
- ✓ Completing the “Stress Test” exercise on investment funds, for the purpose of identifying new procedures that would lead to the improvement of the participating funds’ capacity to manage investment liquidity and risks.

Additional to such measures, we also target the following activities for 2017:

- Reviewing and revising the supervisory function over IF’s and fund managers in the project funded from the Structural Reform Support Programme and developed by FSA together with the European Commission and the World Bank. The approach to inspections and supervision at the FSA head office will be reviewed and revised, looking at prudential requirements and conduct rules. The revision will also cover:
    - Development of product intervention mechanisms according to MiFIR.;
    - Implementing the new principles instated by the control regulation, such as establishing inspection objectives adapted to the risk profile of each inspected entity, and dialoguing with the inspected entity throughout the inspection stages (pre-inspection, inspection, post-inspection);
    - Implementing risk-based supervision – principles, methods, techniques. FSA proposes to continue the development of the mixed approach to supervision, based both on risk evaluation and conformity;
    - Strengthening supervision on safekeeping of clients’ assets.
- Improving supervision of compliance with issuers’ obligations of full and timely disclosure of information to investors

- Alignment to the supervisory requirements, according to MAR.

For the **insurance-reinsurance sector**, 2017 means continuing the permanent exchange of information and expertise with the insurance undertakings on the implementation of the Solvency II regime, which modifies both the supervision of insurance undertakings and their operation. Since 2016 was the first year when the new Solvency regime was applied, it was a real challenge for supervisors and insurance undertakings alike, and permanent communication and consultation with all participants were a must for successfully achieving the objectives of protecting the consumers and improving their trust of insurance products.

Capacity building, to ensure the effective implementation of the new requirements. This is the major objective in this area and will be achieved by maintaining a harmonised procedural framework for risk-based supervision, supporting the consistency of on-site and off-site activities.
In 2017, we will continue the activities aimed at stabilising the MTPL market, by the implementation of GEO no. 54/2016 that provides for measures in support of the consumers. Such activities include the transition to the new reference premiums and reorganisation of the Motor Insurers Bureau of Romania. FSA will work together with counterpart authorities from the EU and with EIOPA, in order to benefit from the experience and good practices of other markets in the region. Moreover, FSA will take action to ensure that the observations and amendments received in the public debate on the GEO no. 54/2016 are duly considered and included and will follow the discussions on the Ordinance and its approval by a law in the Parliament.

In addition, FSA will continue the measures aimed at strengthening the stability of the insurance market, by providing prudential supervision of insurance undertakings, starting from the outputs of the BSR and BSRE audit of 2015, and continuing with the findings of the supervisory actions of 2016, including the measures included in the recovery plans drawn up for certain companies, under Law no. 503/2004 and Law no. 237/2015.

The activities taken into consideration in 2017 in order to fulfil the objectives for the insurance market are the following:

- Continue to develop the risk assessment based supervision system and supervisory tools, based on the new reporting framework;
- Continue the internal process aimed at revising the entire risk assessment based supervisory function; aligning the guides starting from the categories of risks; and adapting the EIOPA supervision handbook to the specifics of the Romanian sector (for this project, FSA will prepare an application for European funds under the Structural Reform Support Program);
- Monitoring insurance undertakings' risk profile, with view to strengthening the preventive intervention function of the supervision;
- Continue to monitor the special supervision of insurance undertakings in distress and subject to recovery measures, based on Law no. 503/2004 and Law no. 237/2015;
- In 2017, implementing the new supervisory system based on individual supervision plans, rather than inspection plans, this being the first year under the Solvency II system.

Regarding ***crisis management measures*** (financial recovery and resolution), considering the need to take swift action, in early stages, in the case of companies in distress or on the path to distress with critical impact on the financial system, FSA has the role of ensuring the continuity of the critical financial and economic functions of investment / insurance undertakings, such as to minimise the impact on hedging funds, mitigate market impacts and prevent contagion on the financial system.

The objectives proposed for next year in the area of recovery and resolution are: prepare proposals to amend Law no. 246/2015 on the recovery and resolution of insurance undertakings, considering certain conclusions derived from its implementation; finalising the rules for the effective and efficient implementation of this law; developing resolution plans for all the insurance undertakings covered by the law (more than 10 % market share) and cooperation with the NBR, MPF and other resolution authorities of EU Member States, in order to ensure optimal conditions for planning the resolution.

The objectives of the **private pension system sector** for 2017 are the following:

- Protecting the interests of participants and beneficiaries, by supporting the efficient operation of the private pensions system and ensuring their access to relevant information;
- Maintaining low risk level on the private pensions fund market;
- Standardising the supervisory activities, based on the nature, size and complexity of the risks associated with each supervised entity.
- Early identification of the main risk areas in the operations of private pensions entities, through the use of a fair quality assessment tool of the overall corporate governance system and individual performance of key individuals, by keeping track of their actions (attitude and behaviour) and ensuring that similar measures are ordered for similar acts, based on such acts' impact, risk, circumstances and likelihood of recurrence.

Development of Non-banking Financial Markets

The main objectives we will pursue to encourage the development of the three sectors subject to financial supervision are the following:

Insurance market	Capital market	Private pensions market
• Align risk supervision and management to the Solvency II standards and confirm the measures to consolidate the market, by implemented the adopted regulations; • Update and simplify the distribution of insurance products, by diversifying distribution channels, including by intensifying the participation of credit institutions in the distribution chain; • Identifying measures to incentivise the launch of new products in the following segments: 1. life and health insurance; 2. real property insurance; 3. farming insurance.	• Consolidating market infrastructure: 1. approve the merger of the two market operators - BVB and SIBEX; 2. Re-authorising the central repository in compliance with EU Regulation no. 909/2014; 3. Start the project to set up a National Central Counterpart (CCP) that will provide clearing services for all financial markets and instruments in Romania (EMIR); • Monitoring the implementation of corporate governance by the capital market entities, in compliance with the regulations applicable as from the 1st of January 2017; • Develop a mixed approach -* risk assessment and conformity based supervision and implementing new on-site supervision principles; • Maintaining investors' trust, by improving the specific mechanisms for the prevention and identification of market abuse; • Intensify dialogue with capital market brokers on the preparations for the new MiFIDII requirements on reporting transactions and promoting the FSA measures for transitioning to the new transaction reporting system.	• Monitoring the effects of enhanced flexibility of the voluntary pensions regulatory framework; • Supplementing the secondary regulations, in order to develop voluntary pension funds; • Develop and promote regulatory measures ensuring the safe development of the private pensions market, with a view to increasing the efficiency of the system and protecting the participants; • Ensuring a favourable investing environment, through its permanent updating, monitoring and adapting, such as to encourage the diversification of the portfolios of private and voluntary pension funds, taking into account the growth rates of such pension funds; • Introducing the occupational pensions fund; • Support the completion of regulations on then payment of pensions.

Institutional Building

The process of strengthening the institutional capacity of FSA – covered by the strategic objectives for 2016 – 2018 – continues in 2017, by maintaining the set objectives, thus:

strengthening the mechanisms ensuring consumers' protection

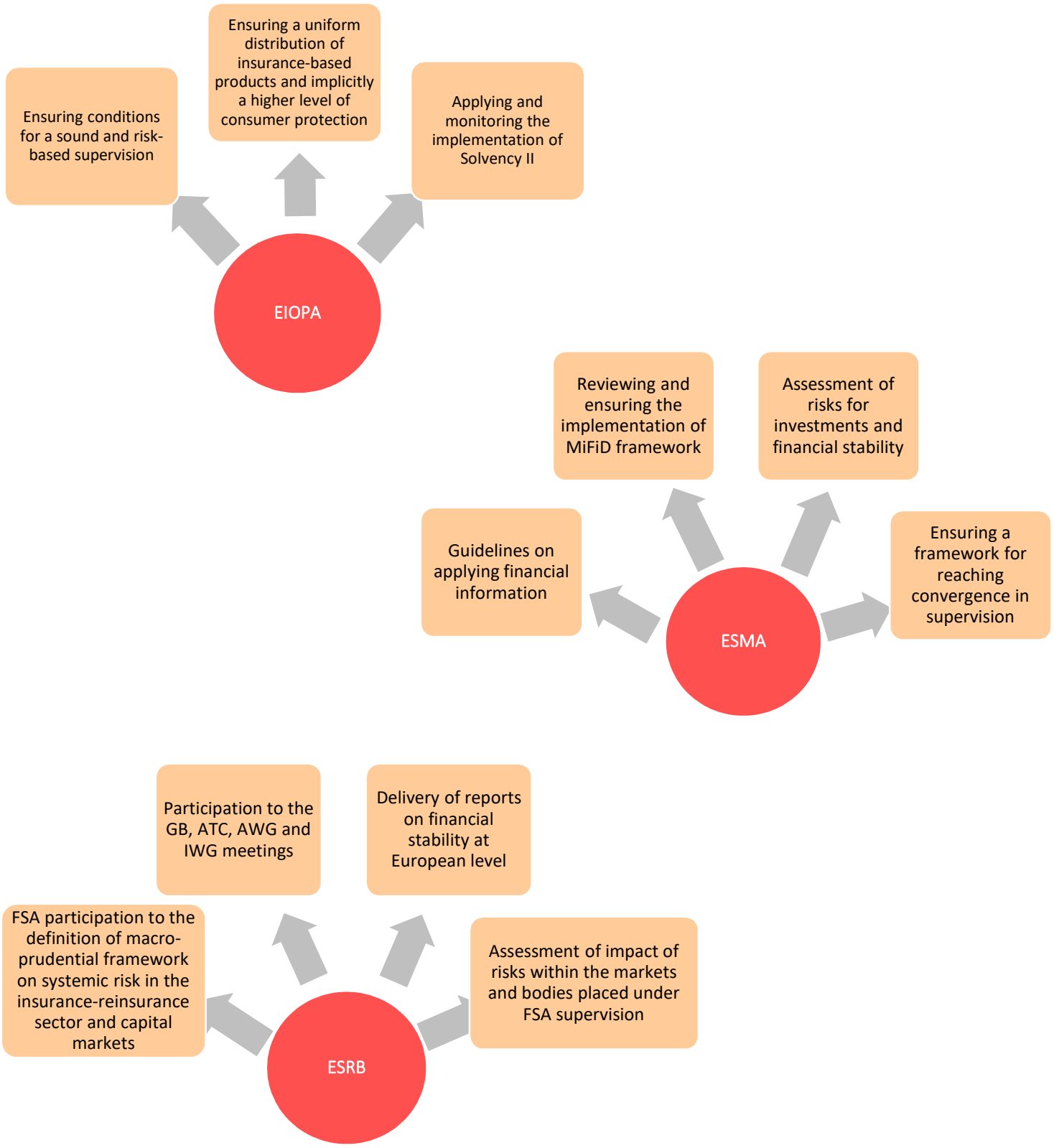
- development of analytical, operational and information-based resources within the specialised and compliance-based activity of CSB/CFT;
- improvement of the supervision system based on risk assessment and analysis
- reviewing the primary and secondary legislative framework
- continuation of the IT infrastructure development process
- Vocational training and development of staff

Other objectives for 2017 related to the continuation of the IT infrastructure development process:

- ✓ Improving the efficiency of governance and organisation of information systems; modernisation and integration of IT infrastructure;
- ✓ Continue the implementation of an Integrated IT System for Resource Planning (type Enterprise Resource Planning – ERP);
- ✓ Implementing an integrated "business intelligence" platform (developing a new DW - Data Warehouse system);
- ✓ Project to implement the authorisation / approval system based on the new, centralised IT infrastructure;
- ✓ Start the Business Continuity Plan project.

In the field of **human resources,** FSA institutional building will be achieved by:

- Digitalisation of human resources-related activities
- Ensuring the transparency of the staff recruitment processes, diversification of staff recruitment channels and focusing the selection on skills specific to available positions
- Diversification of methods for personal development
- Leadership development and team building programmes

Contribution to the European institution-building process

In 2017 too, as member of the European supervisory authorities, through the experts designated in workgroups, FSA will participate actively to the achievement of the priority objectives set by EIOPA and ESMA for the harmonisation of national financial policies and convergence of the supervision mechanisms of the European financial system.