



FINANCIAL
SUPERVISORY
AUTHORITY



2019

ANNUAL REPORT

Note

This annual report presents the events from the 2019 calendar year and reflects the data on December 31st, 2019. Some statistical data has temporary feature, being revised in later publications of the Financial Supervisory Authority. Due to rounding up, it is possible that the totals do not correspond exactly to the sum of the components or slight differences might appear compared to the percentage variations indicated in the graphs or tables.

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ANNUAL REPORT

FINANCIAL SUPERVISORY AUTHORITY

2019



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FOREWORD

The Financial Supervisory Authority continued also during 2019 the consolidation policy of the institutional activity, maintaining the stability of the three markets which it regulates and supervises (insurance, capital market, private pensions), as well as ensuring the protection of the rights and interests of the non-banking financial services consumers.

2019 can be considered the year of the capital market since BSE was promoted to the status of emerging market by the prestigious global index provider FTSE Russell, meaning an extremely important step in the development of the local stock exchange. This achievement is based also on the STEAM Project (Set of actions Towards Establishing and Acknowledgement of the emerging Market status), initiated by FSA 5 years ago, which supposed an ample process of reviewing the primary and secondary legislation, consolidating and modernising the infrastructure of the capital market, developing the bond markets and stimulating the increase of the number of issuers and liquidity in these markets. Promoting the Romanian stock exchange from the status of frontier market to that of emerging market brings the fulfilment of the fourth of one of the main objectives taken by the FSA ever since 2014.

Introducing the occupational pension system and the law regarding the mutual insurance companies represented other important objectives on the agenda of the Financial Supervisory Authority. The technical advice, coming from the Authority, have sustained the successful completion of the legislative projects ensuring now the framework governing the functioning of the two new systems on the private pension and insurance market.

Also, in 2019, while Romania held the rotating Presidency of the European Union's Council, FSA significantly contributed to the closing of 9

out of the 11 legislative files related to the non-banking financial area. Furthermore, the experts of the Authority participated, like every year, to the consolidation of the regulating framework at the European level, with contributions within the working groups of the European and international authorities such as the European Securities and Markets Authority (ESMA), European Insurance and Occupational Pensions Authority (EIOPA) or International Organisation of Securities Commissions (IOSCO).

The financial education programme carried out by FSA continued to develop and become a reference point of the protection activity for the non-banking financial service consumer.

Although it is a recent institution, which went several re-settling and reconstruction periods during its six years of existence, in 2019, FSA entered the institutional maturity path. The authority contributed significantly to high-profile projects in all the three markets which supervises, projects which led to the development of the Romanian non-banking financial system.

Elena Doina Dascălu

FSA First Vice President

ABOUT US

The Financial Supervisory Authority (FSA) was established in 2013 as a specialised independent administrative authority, with a legal status, self-financed, exercising its attributions according to the provisions of the *Government's Emergency Ordinance no. 93/2012 regarding the establishment, organisation and operation of the Financial Supervisory Authority, approved with amendments and additions via the Law no. 113/2013, with the later amendments and additions*, by taking over and reorganising all the duties and prerogatives of the Romanian National Securities Commission (CNVM), Insurance Supervisory Commission (CSA) and Private Pension System Supervisory Commission (CSSPP).

FSA exercises the authorization, regulation, supervision and control powers over:



- a. the intermediaries of the financial instruments operations; investment firms; collective investment schemes; investment management companies; financial investments consultants; financial instruments markets; market and system operators; central depositories; clearing and settlement houses; central counterparties; market operations; issuers; Investor Compensation Fund; other individuals or legal entities carrying out activities according to the legislative provisions applicable to the capital market;
- b. insurance companies, insurance-reinsurance and reinsurance companies, mutual companies, hereinafter referred to as insurers or reinsurers, as well as of the insurance intermediaries, supervision of the insurers and reinsurers carrying out the activity in or from Romania, supervision of the activity of the insurance and reinsurance intermediaries, as well as of the other activities related to these, according to the legislative framework applicable to the insurance market;
- c. private pension system, according to the applicable legislative framework.

The supervision exercised by FSA is carried out by:



- a. granting, suspending, withdrawing or refusing to grant, if any, according to the provisions of the law, the license, approval, endorsements, certifications, derogations;
- b. issuing regulations published in Romanian Official Gazette, Part I;
- c. carrying out the inspection of the entities and operations foreseen in art. 2 alignment (1) of the *Government's Emergency Ordinance no. 93/2012 regarding the establishment, organisation and operation of the Financial Supervisory Authority* based on the reports received and by verifying on the scene;
- d. deciding actions and applying sanctions.

ABOUT US

FSA represents the Romanian interests within the International Organisation of Securities Commissions - IOSCO, European Securities and Markets Authority - ESMA, European Insurance and Occupational Pensions Authority - EIOPA, International Association of Insurance Supervisors - IAIS and the International Organisation of Pension Supervisors - IOPS, being an official member of these international authorities.

When exercising the tasks and prerogatives foreseen by the establishment legislation, FSA contributes to the consolidation of an integrated operation and supervision framework of the markets, participants and operations on these markets and has as main objectives:



- a. Ensuring the stability, competitiveness and proper functioning of the financial instrument markets, promoting the trust in these markets and in the investments in financial instruments, as well as ensuring the protection of the operators and investors against unfair, abusive and fraudulent practices;
- b. Promoting the stability of the insurance activity and protecting the rights of the policyholders;
- c. Ensuring an efficient functioning of the private pension system and the protection of the interests for the participants and beneficiaries;
- d. Creating and maintaining an integrated functional and efficient organisational framework, necessary for ensuring the protection of the non-banking financial services consumers;
- e. Consolidating the integrity and the macroeconomic financial stability, by instituting partnerships with other authorities and institutes, for the purpose of developing the national economy.

SUMMARY OF THE FSA ACTIVITIES

During 2019, FSA concentrated its activity on ensuring the stability and development of the Romanian non-banking financial system, through numerous actions which led to a better regulation and alignment with the European legislation, strengthening the supervision regarding the non-banking financial markets and their entities, protecting the consumers by improving their trust in markets and by improving the quality of services and an efficient cooperation with the supervised institutions.

The STEAM project (Set of actions Towards Establishing and Acknowledgement of the emerging Market status), initiated by FSA in 2014, materialised remarkable for the Romanian capital market by the **FTSE Russell announcement in September 2019 that intends to recognise the BSE promotion to the emerging market status**. Thus, Romanian capital market will be attributed (beginning with September 2020) percentage allocations in the geographical index calculated by FTSE Russell, varying between 0.008% and 0.085% from the total composition of this reference index in the financial field. Obtaining this status by the BSE will bring more visibility to the Romania capital market, will allow the fructification of new opportunities, and will attract many investors. The support of the FSA in this process was carried out on several levels: revision of the primary and secondary legislation, consolidation and modernisation of the capital market infrastructure, development of the bond market, stimulating the growth of the number of issuers and the liquidity on the capital markets and the development of the retail market and the financial education.

The first quarter of 2019 was marked by the exercise of the Romanian Presidency of the EU Council, which was under special attention for finalising the inter-institutional negotiations to adopt the legislative files. **FSA contributed to ensuring the continuity of the decision-making process regarding the non-banking financial sector. In this context, 9 out of the 11 legislative files, which were taken over from the Austrian Presidency on January 1st 2019, were closed in the non-banking financial area:** the Pan-European Personal Pension Product; the prudential requirements regarding the investment firms; financing the small and medium enterprises (SME) via the capital market; sustainable financing; *European Markets Infrastructure Regulation* (EMIR) – central counterparty supervision (CCP); amendment of the *EMIR Regulation*; cross-border distribution of the investment funds; reviewing the European financial supervision system; covered bonds; amendment of the *Motor Insurance Directive* (MTPL) and the crowdfunding for the enterprises. Finalising the negotiations for these legislative projects in a timely manner will allow the acceleration of the deepening of the Capital Market Union at the European Union level, which furthermore will sustain the economic development in Europe, investments in innovation and promoting competitiveness. In addition, in the context in which Romania held the Presidency

of the EU Council during the first quarter of 2019, FSA organised at Bucharest, according to the practice encountered at ESMA and EIOPA level, high-level meetings of the two European authorities.

During 2019, FSA collaborated with the Romanian authorities, namely the Ministry of Public Finance, the Ministry of Labour and Social Protection, the Ministry of Foreign Affairs, the Ministry of Justice, the Romanian Parliament and the Public Pension National House, by exchange of information and technical advices regarding a new important legislative project for the private pension sector, that introduces **the occupational pension system in Romania**. This type of pension complements the other types granted by the pension system in Romania, developing new forms for pension saving. The occupational pensions are optional, and the pension scheme will be established by each employer who wishes to offer the employees such benefits. The *Law no. 1/2020 regarding the occupational pensions* creates the premises for obtaining an occupational pension, additional and separate from the one provided by the public system, obtained after the participant qualifies to an occupational pension fund. The purpose for introducing the occupational funds refers to guaranteeing an additional safety level for the future pensioners, by imposing some supervision, as well as efficient management rules for the occupational pension system.

Another important legislative project, to which the FSA considerably contributed with its technical opinions, is the *Law no. 71/2019 regarding the mutual insurance companies and for the modification and completion of some normative acts*, the purpose of this act being of creating the necessary legal framework for establishing, organising and regulating the specific aspects for the functioning of the mutual insurance companies in Romania. The mutual insurance companies are defined as non-profit legal entities, with an unlimited and variable number of members, having as purpose carrying out insurance activity. The mutual companies have as purpose covering, through insurance contracts, the risks of their members and paying the claims and insurance compensations to the beneficiaries of the contracts and/or the third-party victims, in case that insured risks take place. The mutual companies carry out only insurance activity and operations related directly to this activity for their members, based on the mutuality principle.

Improving the supervision of the non-banking financial system entities has represented a constant concern of the FSA for the last years, carrying out numerous projects with technical assistance from the international organisations in order to ensure the transition to the **risk based supervision and convergence to the European supervision practices**. In the insurance and reinsurance domain, FSA received consultancy from EIOPA for drafting a Supervision Handbook for the insurance companies and for improving the supervision function regarding the market conduct of the insurance distributors. With this Handbook, it was ensured a consistent approach regarding the evaluation of the executive management and shareholders with qualified participations at the time of the analysis and while exercising the position. Furthermore, new *off-site* and *on-site* supervision tools were established regarding the strategic risks, business models of the companies, fulfilment of the ORSA requirements, evaluation of the adequacy of the technical provisions constituted by

the companies and the evaluation of their risk evaluation framework for each insurance company. **In the capital market domain**, the World Bank experts have rethought the *on-site* and *off-site* supervision process of the appropriate entities, from the prudential perspective and the conduct rules, as well as optimizing the allocation of the surveillance resources, in relation to the risk-based hierarchies. Within this project, the World Bank experts have proposed a risk calculating methodology and a Handbook contributing to the consistent application of the supervision procedures for the investment firms and the investment managing companies. In 2019, the FSA's efforts were focused towards the gradual implementation of the risk based supervision methodology both at the organisational level (establishing the final reporting forms and testing the report models, internal procedures, market dialogue), as well as from the IT perspective (automatization of the reports and their risk evaluation flows according to the methodology elaborated by FSA).

According to the recommendations of the international organisations (International Monetary Fund, European Securities and Markets Authority, European Insurance and Occupational Pensions Authority, European Securities and Markets Authority etc.), FSA continued the necessary steps for developing the financial education on the entire Romanian territory, approving the **FSA Strategy for the financial education for the period 2019-2023**, which contains national programs addressed to all typological categories of target groups (children, adolescents, adults, trainers etc.). The *FSA strategy for the financial education* is based on 4 main directions, according to the target group and the objectives aimed for: pre-university (*Let's talk about the non-financial market!*, *Be smart in traffic!*), university (*Academic laboratory*), adults (PAD Caravan, FSA guides collection, street awareness campaigns or at fairs, conferences, seminars) and trainers (program addressed to professors from the pre-university education, *Train-the-Trainer*).

FSA was actively involved in the international activities, contributing in 2019, as ESMA and EIOPA member, to the construction of a common supervision culture of the European financial sector, which would ensure the financial stability and protection of the financial services consumers. The involvement at a high and technical level of the FSA representatives in drafting and harmonising the financial policies at the European level, as well as ensuring the convergence of the supervision mechanisms for the European financial system has offered our Authority the opportunity to know in depth the European Requirements and to ensure a regulating and supervision framework aligned with the European provisions. A special recognition came from the International Organisation of Pension Supervisors (IOPS), FSA being selected once again in November 2019 for a two-year mandate (2019-2021), as member of the IOPS Executive Committee. Also, on the international level, a lot of projects were carried out with World Bank, European Commission and European Bank for Reconstruction and Development, having as themes the consolidation of the supervising for the transparency requirements of the issuers, conduct supervision on the insurance market and solving the issue of the inactive accounts on the capital market.

In 2019, FSA has carried out the **FinTech HUB project**, in the context in which it was created the institutional framework for the dialogue with the companies developing FinTech, thus supporting the development of the modern technologies on the financial market. With the FinTech Hub, it

is ensured an efficient communication with the regulated entities, as well as with other interested companies or individuals, so as to identify the opportunities, but also the risks generated by FinTech, as well as optimal solutions for tackling them. The FinTech solutions bring forth new risks which FSA must have the capacity to understand and be ready to adequately manage, as well as new opportunities for consumers and entities. Therefore, it is important for all the parties involved to focus on the opportunities and benefits generated by innovations, but also on the risks which might appear and the solutions for their prevention or mitigation. The European Union grants a special attention to the FinTech development and, in this regard, the European Commission adopted in March 2018 the FinTech Action Plan, dedicated to promote the competitiveness and innovation in the European financial sector.

The year 2020 started with the emergence of a new risk related to the financial markets represented by the fast spreading of the new coronavirus, with significant effects upon the entire economic activity. In this context, **the primordial objective of FSA became the mitigation of the COVID-19 pandemic impact upon the stability of the non-banking financial markets and, implicitly, protecting the non-banking products and services consumers.** According to the current situation, during the first part of 2020 several support measures for the non-banking financial markets were implemented: a 25% discount for all the tariffs, taxes, quotas and contributions due to FSA by the entities carrying out the activity on the supervised markets, beginning with April 1st 2020 during the entire emergency state, independently of its extension; adopting some actions regarding carrying out general shareholders meetings of the issuers using long-distance means during the emergency state period generated by COVID-19; extension of some deadlines regarding the reports, disclosure of public information and submitting other documents to FSA in the insurance domain, following the situation generated by COVID-19 and instituting the emergency state in Romania; the possibility of the managers of private pension funds to invest in sovereign securities issued by the Ministry of Public Finance, EU Member States or Member States belonging to the European Economic Area for more than 70% (the amendment being a temporary one – for a 1-year period from the date the norm entered into force); the intensification of the communication with the regulated entities, following their actions related to the updating and notification of the Continuity Business Plans which include also the COVID-19 impact.

The size of the non-banking financial markets in 2019 was as follows: **the private pension system sector represents 6.09% of the GDP**, determined by the flow of the monthly cashed in contributions and by the positive returns obtained by the managers following the investment policies; **the capital market sector represented 4.39% of the GDP**, influenced by the positive return of the net subscriptions of the investment funds in 2019 and by the investment results, and **the insurance-reinsurance sector registered 2.09% of the GDP**, slightly decreasing compared to the prior year (2.41%).

THE CONTEXT OF 2019

In 2019, the global economy demonstrated resilience, registering moderate growths, low unemployment rates and high internal demand, given the geopolitical context characterised by volatility and marked by trading uncertainties deriving especially from the trading tensions between USA and China and the negotiations taking place regarding a potential agreement between the EU and Great Britain related to Brexit.

In 2019, it continued the tendency to decrease the economic growth of the European Union Member States. In the Euro Zone, the economic growth was 1.2%, decreasing compared to 2018 (1.9%), while in the EU-28, the GDP reduced at 1.5% compared to 2% in the prior year. Ireland (5.5%), Hungary (4.9%), Malta (4.4%), Estonia (4.3%) and Romania (4.1%) had the most significant growths in 2019. At the opposite pole was placed Finland (1%), Germany (0.6%) and Italy (0.3%) with slower growth rhythms.

A vulnerability of the European economy remains the debt level, which is maintained high in the case of some Member States.



The slowdown growth rhythm was also manifested in the case of US and China economies. US registered an advance of 2.3%, lower compared to 2018 (2.9%), while China recorded in 2019 a growth by only 6.1% compared to 2018 when the Chinese economy advancement was of 6.6%, given the trade tensions between the two states, but also following the manifestation of some uncertainties at the global level.

GDP evolution during the 2018 – 2019 period

	Q1_19	Q2_19	Q3_19	Q4_19	2018	2019
EU-28	1.7	1.4	1.5	1.2	2.0	1.5
EURO ZONE	1.4	1.2	1.3	1.0	1.9	1.2
ROMANIA	5.0	4.4	3.2	4.2	4.4	4.1
BULGARIA	3.8	3.5	3.2	3.1	3.1	3.4
HUNGARY	5.3	5.1	4.8	4.6	5.1	4.9
POLAND	4.7	4.1	4.0	3.7	5.1	4.1
CZECH REPUBLIC	2.8	2.7	2.5	2.0	2.8	2.6
GERMANY	1.0	0.3	0.6	0.5	1.5	0.6
GREAT BRITAIN	2.0	1.3	1.3	1.1	1.3	1.4
FRANCE	1.3	1.5	1.5	0.9	1.7	1.3
SPAIN	2.2	2.0	1.9	1.8	2.4	2.0
ITALY	0.2	0.4	0.5	0.1	0.8	0.3

Source: Eurostat (percentage variation compared to similar previous quarter – seasonally adjusted data)

The public debt to GDP ratio was 84.2% in the Euro zone for the fourth quarter of 2019, slightly decreasing compared to the level registered in the third quarter 2019 (86%). At the EU Member State level, there is a considerable heterogeneity of the public debt-GDP level, varying between 8.4% (Estonia) and 176.6% (Greece).

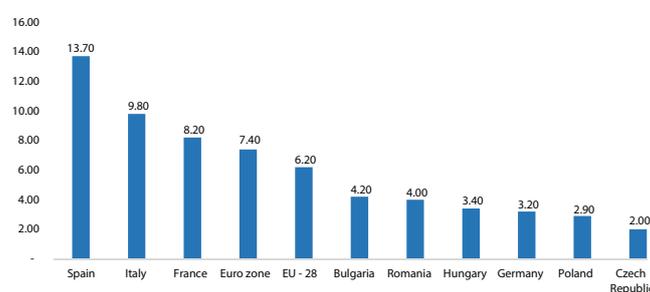
Romania is placed among the EU Member States with a low debt level (35.2%), below the 79.4% of the GDP debt average of the EU Member States.

Evolution of the government debt (% GDP)

	Q1_2018	Q2_2018	Q3_2018	Q4_2018	Q1_2019	Q2_2019	Q3_2019
ITALY	135.6	136.1	136.2	134.8	136.4	137.8	137.1
FRANCE	99.0	99.0	99.2	98.4	99.6	99.6	100.4
SPAIN	99.2	98.6	98.9	97.6	98.6	98.6	97.5
THE EURO ZONE	87.7	87.3	87.1	85.9	86.5	86.3	86.0
UE - 28	82.0	81.5	81.4	80.4	81.0	80.4	80.1
HUNGARY	73.2	73.5	72.0	70.2	69.5	68.2	68.1
GERMANY	64.1	63.0	62.7	61.9	61.7	61.1	61.1
POLAND	51.2	50.5	49.5	49.0	49.2	48.1	47.5
ROMANIA	34.5	34.1	33.9	34.7	33.8	33.8	35.2
BULGARIA	24.0	23.5	22.8	22.3	20.9	20.4	20.6

Source: Eurostat

Unemployment rate (seasonally adjusted, %) in December 2019



Source: Eurostat

A positive tendency of 2019 is represented by the decrease of the unemployment rate both for the Euro Zone and the EU. Thus, in December 2019, the seasonally adjusted unemployment rate for the Euro Zone recorded a value of 7.4%, decreasing compared to the same period in the previous year (7.8%), being placed at the lowest level since May 2008. Regarding the EU economy, the unemployment rate was 6.2% in December 2019, the lowest value since January 2000.

In the context of the COVID-19 pandemic outbreak and the effects of the containment measures imposed by the states, the social and economic impact is a major one, the most recent data indicating that the global economy is entering the most significant recession since the Great Depression. The most recent forecasts of the International Monetary Fund (IMF), published in April 2020, indicate an economic negative growth of 3% in 2020, way below the 2009 level, reached during the global financial crisis, when the global economy contracted by 0.1%.

For 2021, the IMF forecasts indicate a recovery of the global economy, with an advance of 5.8%, in the basic scenario supposing that the effects of the pandemics will be reduced in the second half of 2020, and the isolation and quarantine measures will be gradually lifted during this period.

IMF estimates for the Euro Zone a negative growth around -7.5% in 2020, in the context in which also the forecasts prior to the crisis generated by COVID-19 indicated a continuing slowing down, with moderate advancements for the Euro Zone.

Furthermore, the US economy will be strongly affected by the crisis generated by COVID-19, with a growth forecast of -5.9% in 2020. Despite the aggressive measures for diminishing the impact, but necessary in order to sustain the economic activity and the protection of the labour force, the effects of the crises are foreseen to be persistent, with a growing unemployment rate.

According to the spring forecast of the European Commission, the economies of all the EU Member States will be impacted by the effects of the COVID-19 pandemic and the strict lockdown measures implemented by the states, registering contractions comprised between -4.3% (Poland) and -9.7% (Greece) in 2020. Together with Greece, the most affected states in the Euro Zone remain Italy (-9.5%), Spain (-9.4%) and France (-8.2%). Thus, the EU economy will contract by 7.4%, a much lower level compared to the one registered during the global financial crisis (2008-2009), while forecasts for the Euro Zone indicate an even more significant decrease, of -7.7%, this year. Also, in the case of Great Britain, the European Commission estimates a significant reduction (-8.3%) in 2020.

The most recent estimations of the European Commission (spring forecast, May 2020) show that the Romanian economy will enter the recession this year, with a 6% decrease, followed by a recovery of the economic growth in 2021 (+4.2%). The private consumption, the main growth motor in the previous years, will decrease (-6.2%), while investments will slump by 15%, after the significant advance registered in the previous year. Regarding the export volume, the EC estimates a reduction by 12.8%, while the imports will decrease by 14.4%, given the lower internal demand. Thus, in 2020, the net export will have a positive contribution to the dynamics of GDP, leading to the adjustment of the current account deficit of up to 3.3% of the GDP. The EC estimates a decrease of the inflation rate to 2.5% in 2020, especially following the evolution of the energy prices, while the unemployment rate will raise to 6.5% this year. The European Commission estimates a growth of the budget deficit to 9.2% of the GDP in 2020, and up to 11.4% of the GDP in 2021, while in the case of the governmental debt, it is expected a growth up to 46.2% of the GDP in 2020, and 54.7% of the GDP in the following year.

The IMF forecasts indicate that the Romanian economy will enter the recession in 2020, with a -5% decrease of the GDP, followed by a recovery of the economic growth up to 3.9% in 2021. The short-term perspectives are less optimistic also regarding the other indicators. According to the IMF, the unemployment rate might reach even a 10.1% level, and the tendency to deepen the current account deficit might continue, given the higher dynamics of the imports compared to exports, up to an estimated 5.5% level of the GDP in 2020 and a return to 4.7% in 2021.

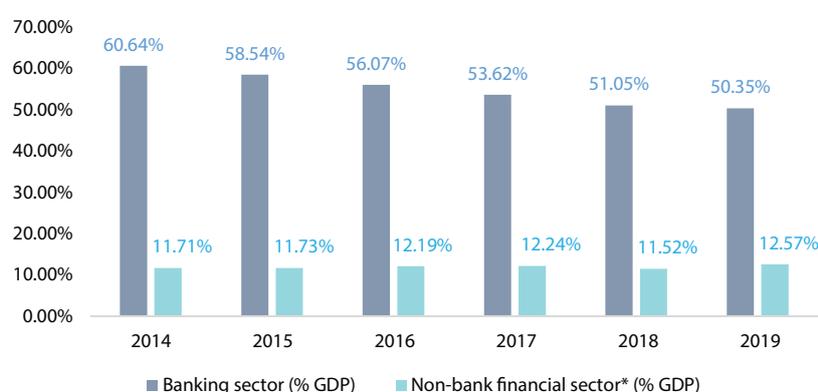
On the other hand, The National Commission for Strategy and Prognosis estimated that the COVID-19 impact on the Romanian economy will be reflected in a -1.9% contraction of the GDP 2020, a 6 percentage points decrease compared to the winter forecast (+4.1%), following the negative evolutions estimated for a series of macroeconomic indicators.

However, the global economic perspectives remain marked by a high degree of uncertainty, the future evolutions depending both by the duration of the pandemic, as well as on the efficiency of the measures implemented by the states in order to decrease the impact of the crisis generated by COVID-19.

The size of the non-banking financial markets

The size of the assets of the non-banking financial sector reported to the GDP had a moderate growth tendency, reaching a new maximum in 2019. This indicator recorded a decrease in 2018 given the lower evolution of the asset value compared to the GDP advance in nominal terms.

Financial sector assets as a share of GDP



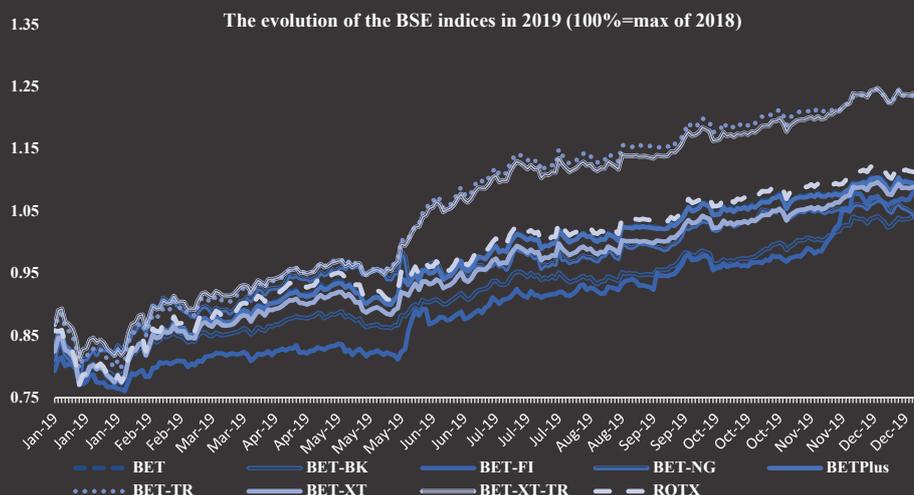
*Source: NIS, NBR, FSA calculations, *NFIs are not included*

The total asset evolution of the private pension funds was determined both by the flow of the monthly cashed in contributions, as well as on the positive returns obtained by the managers following the investment policies, the share to the GDP value being of 6.09% at the end of 2019. On the second place from the perspective of the GDP-reported assets, is the capital market, where the return on the positive territory of the net subscriptions of the investment funds in 2019, together with the investment results have determined an asset-GDP ratio of 4.39%. The indicator is slightly decreasing compared to 2018 (when it was 4.62%), given the higher growth of the nominal GDP. At the end of 2019, the assets of the insurance-reinsurance market represent 2.09% of the GDP, slightly decreasing compared to the prior year (2.41%).

Who are the non-banking financial market consumers in Romania?

Capital market	4.39% GDP	<ul style="list-style-type: none"> 53,550 investors according to the ICF 336,343 OEIF investors 88,709 CEIF investors
Insurance market	2.09% GDP	<ul style="list-style-type: none"> 13,862,058 non-life insurance contracts 1,618,776 life insurance contracts
Private pension market	6.09% GDP	<ul style="list-style-type: none"> 7,46 million participants in Pillar II 501.124 participants in Pillar III

Indicators regarding the financial instrument and investment sector on 31.12.2019



The total traded value on the Bucharest Stock Exchange (BSE) in 2019



Market capitalization at the end of the year



The total assets of undertakings for collective investment in transferable securities (UCITS), of which:

48% investment in OEIF
3% investment in CEIF
26% investment in FP
23% investment in FIC

COLLECTIVE INVESTMENT UNDERTAKINGS AND INVESTMENT MANAGEMENT COMPANIES:

18 Investment management companies (IMC)
86 Open-end investment funds (OEIF)
26 Closed-end investment funds (CEIF)
5 Financial investment companies (FIC)
Fondul Proprietatea (FP)
Investor Compensation Fund SA

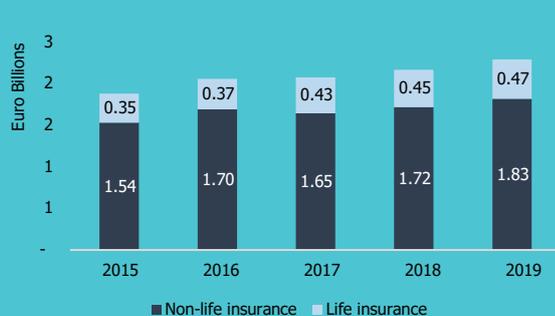
Indicators regarding the insurance-reinsurance sector on 31.12.2019

28 insurance companies, of which 15 companies practiced only general insurance activity, 7 companies practiced only life insurance activity and 6 companies practiced composite activity

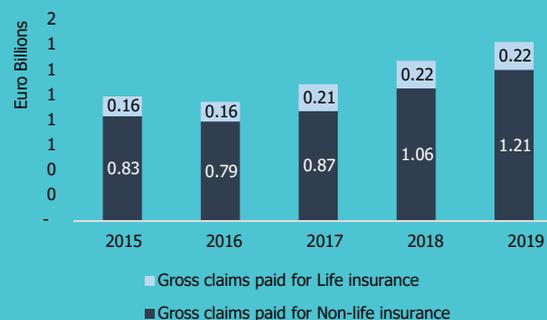
Penetration degree of the insurance sector in GDP: 1,10%

Insurance density 125 eur/inhabitant (598 lei/inhabitant), increasing compared to 2018

Evolution of the gross written premiums



Evolution of the gross claims paid



The combined damage rate for life insurance - 108,26%
 The combined damage rate for A3 class - 122,11%
 The combined damage rate for A8 class - 72,51%
 The combined damage rate for A10 class - 116,60%

A3 - land vehicles, excluding rolling stock

A8 - fire and natural forces (for other goods than those insurable from classes A3-A7)

A10 - motor third party liability, for the use of land motor vehicles, including carrier's liability

Gross technical provisions for non-life insurance: 2.04 eur billion (9.75 lei billion)

Gross technical provisions for life insurance: 1.66 eur billion (7.96 lei billion)

Liquidity coefficient for non-life insurance: 2,24

Liquidity coefficient for life insurance: 4,44

Solvency II indicators

Total eligible own funds to meet the SCR	1.15 eur bln. (5.48 lei bln.)
SCR (solvency capital requirement):	0.65 eur bln. (3.08 lei bln.)
SCR ratio:	1.78

Total eligible own funds to meet the MCR	1.10 eur bln. (5.25 lei bln.)
MCR (minimum capital requirement):	0.26 eur bln. (1.26 lei bln.)
MCR:	4.18

Indicators regarding the private pension market on 31.12.2019

17

private pension funds (7 privately managed pension funds and 10 voluntary managed pension funds)

12.97 eur bln. (61.97 lei bln.)

net assets of the privately managed pension funds

10

Managers

0.52 eur bln. (2.51 lei bln.)

net assets of the voluntary pension funds

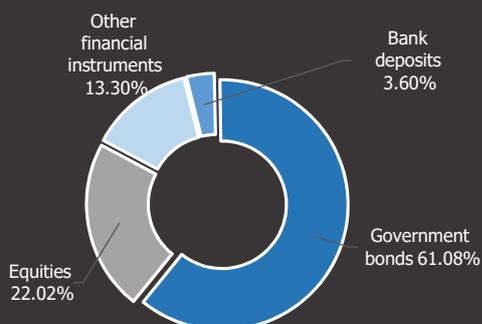
3

Depositaries

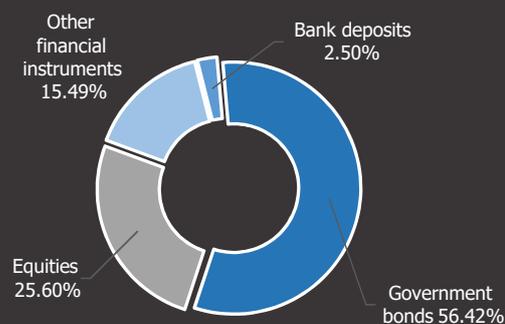
on 31st of december 2019

the return rates obtained by the private pension funds were positive

Privately managed pension funds – structure of the investment portfolio



Optional pension funds – structure of the investment portfolio



Pillar II pension funds	Rate of return	Market share (% net asstes)
FPAP Vital	6.9216%	9.86%
FPAP Metropolitan Life	6.8251%	14.16%
FPAP AZT Viitorul Tau	6.4703%	21.59%
FPAP NN	6.1156%	35.22%
FPAP Aripi	6.1061%	8.68%
FPAP BRD	5.8428%	3.78%
FPAP BCR	5.7813%	6.71%

Pillar III pension funds	Rate of return	Market share (% net asstes)
FPF AZT Vivace	6.3529%	4.18%
FPF Aegon Essential	6.3269%	0.35%
FPF AZT Moderato	5.9683%	10.97%
FPF Raiffeisen Acumulare	5.8899%	3.86%
FPF NN Activ	5.6170%	11.47%
FPF Stabil	4.8199%	0.97%
FPF NN Optim	4.6403%	41.88%
FPF BRD Medio	4.6356%	5.37%
FPF Pensia Mea	4.2907%	3.06%
FPF BCR Plus	4.1241%	17.90%



FINANCIAL
SUPERVISORY
AUTHORITY

ANNUAL REPORT

2019



Main achievements in 2019

During 2019, FSA aimed to ensure the integrity and stability of the financial markets, the consumer protection, the trust growth of the supervised markets' participants, as well as the consolidation of the supervision process, based on the european best practices and the proactive approach to the risks.

1 | High-impact projects carried out in the insurance and reinsurance domain

Strengthening the supervision system in collaboration with EIOPA and the European Commission

FSA received consultancy from EIOPA for consolidating the insurance supervision function, within a project financed from the European funds, which materialised in drafting of a Supervision Handbook, which includes also good practices for the companies regarding the adequacy of the technical provisions. The project, carried out during the October 2017 - November 2018 period, had the scope of ensuring the most efficient supervision tools on the insurance markets, in order to detect their major risks to which the insurance companies are exposed and to ensure the financial stability, both from the micro, as well as the macroprudential perspective.

After EIOPA finalised the Supervision Handbook in April 2019, FSA launched, beginning with May 2019, **the project regarding the drafting of the necessary procedures for its implementation**. The purpose of these procedures consists in creating an adequate procedural framework/governance mechanism for the supervision process of the insurance companies.

At the same time, implementing the project involved drafting the internal procedures necessary for transposing the EIOPA recommendations into dedicated documents, adapted to the organisational specificity of the FSA.

In 2019, FSA approved the initiation of the project *The improvement of the Romanian insurance market supervision function regarding the market conduct*, financed by the European Commission through the SRSP program, a project which implied technical assistance granted by EIOPA in the field of insurance intermediaries conduct supervision, considering the importance for the consumers protection and the insurance market stability.

The project has as purpose the development of the supervision instruments based on their risk evaluation regarding the conduct of the intermediaries in their relations with customers, by implementing the following:

- A conceptual framework for the identification and monitoring their conduct risks during the life cycle of the insurance products;
- A system of reports submitted regularly by the entities supervised and analysed by FSA;
- Risk evaluation instruments for monitoring their conduct risks on the market level, including the implementation of the system for the conduct indicators at the market level;
- Risk evaluation instruments for monitoring the conduct risks at the level of each insurance company, including the implementation of a conduct indicator system at the company;

- A process for establishing the conduct supervision priorities and the action plan;
- A process for approving the necessary measures, resulting from the the supervision activities/ actions.

InsurTech Hub – development and support of the technological innovation

Within the insurance-reinsurance sector, FSA developed the **InsurTech HUB** project, whose objective is the enhancement and support the technological innovation in the insurance domain, creating the right space to support both the entities regulated by the FSA and the companies developing IT solutions according to the activity and specificity of the sector. In order to support the controlled development of the innovation activities from the technological point of view on the insurance market, which are ever more numerous and frequent at the global level, both EIOPA, as well as a series of national authorities for financial regulation and supervision, among which also FSA, created dedicated teams (working groups) on FinTech/InsurTech.

2

High-impact projects carried out in the financial instruments and investments domain

Obtaining the emerging capital market status and stimulating the liquidity growth

FSA continued the measures for reaching the emerging market status and for stimulating the liquidity growth of the capital market. In this regard, actions were taken for consolidating the dialogue and collaborating with entities forming the market infrastructure, as well as with other state institutions for supporting the launching of new public offerings on BSE. Furthermore, efforts were sustained for improving the regulations and for granting tax facilities with the purpose of attracting and maintaining on the market institutional investors.

This goal of the Romanian capital market to gain an emerging market status, was materialised by **the FTSE Russell announcement in September 2019 regarding the intention to recognise the Bucharest Stock Exchange as being included in the emerging markets category**. Thus, the Romanian capital market will be attributed (beginning in September 2020) percentage allocations in the geographic index calculated by FTSE Russell varying between 0.008% and 0.085% in the overall composition of these index reference in the financial domain.

Solving aspects related to the inactive accounts on the Romanian capital market

One of the main objectives for the STEAM project, currently being implemented, consists in improving the registry activity of the Central Depository SA, by solving the aspects related to inactive accounts in Section I of the Central Depository, belonging to individuals who obtained shares following the Mass Privatising Program (PPM).

In this regard, FSA benefits from technical assistance granted by EBRD in order to solve the aspects related to the inactive accounts in Section I of the Central Depository, the project being fully financed by the European Commission through the Structural Reform Support Service (SRSS). The estimate duration of the project is of 21 months.

Supporting the establishment of a national central counterparty (CCP)

FSA supported the establishment of a central counterparty in Romania, which was carried out by involving the market operator, but also other interested entities. FSA created a working group responsible for the launching of a CCP set up plan, for the monitoring of the establishment project and for the authorization of this entity according to EMIR.



Re-authorization of the Depozitarul Central SA

The alignment of the Central Depository to the provisions of the *Regulation (UE) no. 909/2014 on improving the securities settlement in the European Union and on central securities depositories* was finalised during December 2019, after FSA re-authorized the company as a Central Securities Depository based on EMIR. At the same time, FSA approved the Central Depository Code and its Regulation on organization and operation.

The new code of the Central Depository was revised in order to align to the terminology of the *Law no. 126/2018 regarding the financial instrument markets* and to the organisation requirements foreseen in CSDR and *(EU) Regulation 2017/392 supplementing (EU) Regulation no. 909/2014 of the European Parliament and of the Council regarding the regulatory technical standards on authorisation, supervisory and operational requirements for central securities depositories*. This process implied also the collaboration via direct correspondence with relevant authorities, namely with the European Central Bank (ECB) and the National Bank of Romania (for the Euro and Lei settlement system).

Furthermore, the re-authorization process involved a revision of the conduct rules and procedures, which led to the amendment of the reporting requirements.

Regarding the compliance of the Central Depository of the capital requirements foreseen in art. 47 alignment (1) of the *(EU) Regulation 909/2014 on improving securities settlement in the European Union* and regarding the central securities depositories, FSA analysed the reports and statistical data received regarding the economic activities, establishing the capital requirements for a 3-year interval. The analysis revealed the fact that the Central Depository permanently had own funds doubled compared to the regulatory capital requirement.

According to the information available on the ESMA website, the Central Depository was enrolled in the Central Depository Registry (CSDR) of the Member States.



Transition to a risk-based supervision model (RBS)

In order to fulfil the objectives regarding ensuring the integrity and stability of the non-banking financial markets and the protection of the investors, FSA initiated, beginning in November 2016, a technical assistance project with the World Bank (financed by the EC), which had as purpose the consolidation of the supervision and inspection function on the capital market.

This project aimed at rethinking the on-site and off-site supervision process, from the prudential perspective and of the conduct rules, as well as the optimisation of the supervision resource allocation, in connection with the hierarchies obtained based on risks. The concentration and allocation of the supervision resources upon those fields, entities (IF, IMC/AIFM) or financial products/investment generating the high risks for the stability and functioning of the market, supposes the gradual development of the risk-based supervision techniques, procedures and practices and familiarize the markets with this type of approaches.

Within this project, the World Bank experts proposed a risk calculation methodology and a Handbook contributing to the consistent application of the supervision procedures for the investment firms and investment management companies. The recommendation of the World Bank was to technically implement the flow of information collection and data processing to carry out risk scores for each monitored entity.

Transition to the risk-based approach engages a sustained effort made by FSA (experience, expertise and process automatization), but also understanding the concept at the market level (making the entities responsible). Changing the supervision approach by the FSA implies also an attitude changed at the entity level, namely that the entity itself will have to apply a risk calculation methodology

(identification, evaluation, control, risk measurement) and take actions for diminishing the risks at its activity level. Thus, the implementation of the risk-based supervision process will be carried out gradually over time.

In 2019, the FSA efforts were aimed towards the gradual implementation of the risk-based supervision methodology both at the organisational level (establishing the final templates and testing the reporting templates, internal procedures, market dialogue), as well as from the IT perspective (automatization of reports and of the risk evaluation flows, according to the methodology drafted by FSA).



Participation in the project regarding the “European Single Electronic Format - ESEF”-Implementation of the *Commission Delegated Regulation (EU) 2018/815 supplementing Directive 2004/109/EC of the European Parliament and of the Council with regard to regulatory technical standards on the specification of a single electronic reporting format*.

The European Commission initiated a project for promoting cross-border investments and for providing the investors an easy access to regulated information, by creating a system offering a single view of the reports information currently stored in the Officially Appointed Mechanisms (OAM) of Member States. Considering the framework of the Capital Market Union and the legal obligations of the *Directive 2004/109/EC on the harmonising of the transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market*, the European Commission (EC) drafted the European pilot project for the European Financial Transparency Gateway (EFTG).

The purpose of the EFTG pilot project consists in the development of a platform infrastructure of the blockchain type which allows the citizens and investors an increased access to the regulated information provided by the participating Officially Appointed Mechanisms (OAM). Furthermore, the EFTG pilot project aims at offering the search information capacity, such as those in the annual financial reports, in order to contribute to a higher capital market integration.

3

High impact projects carried out in the private pensions system domain



Introducing the occupational pension system by implementing IORP II Directive

After a decade since its establishment, the private pension system proves the solidity and safety of a mature market, characterised by a consistent value of the assets and a critical mass of participants, ensuring its stability and sustainability in the long run.

In 2019, FSA sustained the introduction of the occupational pension system, collaborating with the legislative initiator. The process was finalised at the beginning of 2020, when the Parliament adopted the *Law no. 1/2020 regarding the occupational pensions*, which transposes the provisions of the *EU Directive 2341/2016 on the activities and supervision of institutions for occupational retirement provision (IORP II)* in the Romanian legislation. The legal act has as social objective the creation of an additional pension component, financed mainly by employer and as a further alternative by the employees. The occupational pension funds rely on a form of social partnership between the employer and its employees, being moreover also a stimulating and reward factor for the employees, as well as for their retention.

In order to allow for a prudent diversification, that ensures optimal returns in moderate risk conditions, in 2019, **FSA introduced new asset classes for investment by pension funds**, such as transferable securities, issued by investment funds or companies carrying out real estate activities (3%), as well as private capital investments (10%) or investment in project companies (15%).



Implementing an IT managerial system for actuarial handling, analysis and assessment

During 2019, FSA approved the initiation of a project regarding the development and implementation of an *IT Managerial system for actuarial handling*, analysis and assessment for the privately managed pension funds, the voluntary pension fund and the Private Pension System Rights Guarantee Fund. By implementing this project, FSA aims to improve the supervision activity, carrying out some risk complex analysis by developing an integrated calculation program, so the data can be managed and processed faster while the information quantity increases. The future IT system will allow for a better management and easier processing of the data with regard to the participants, as well as the easier processing of the functioning parameters and of the indicators related to the privately administered pension funds and the voluntary one.

4

FinTech Hub - Project regarding financial innovations



A domain which concerned FSA in 2019 refers to the technological innovations in the financial domain - **FinTech**. In order to capitalise and follow the manner in which the new technologies in the financial sector can contribute to the economic growth, while ensuring an adequate degree of consumer protection, FSA approved and carried out **FinTech Hub**, thus being created the institutional framework for the dialogue with the companies developing the FinTech and supporting the development of the modern technologies on the financial market.

Via the FinTech Hub, it is ensured an efficient communication with the regulated entities, as well as with other interested companies or individuals, so as to identify the opportunities, but also the risks generated by FinTech, as well as the optimal solutions for addressing them. In the first months after publishing on the authorities' website details related to the organisation and functioning this Hub, numerous requests were received, the reaction of the markets participants being positive.

Thus, **the new technological evolutions in the financial domain were on the priority list of the FSA activities in 2019**, the authority closely monitoring the new tendencies of non-banking financial markets. Thus, FinTech Hub creates a space opened for dialogue between the authority and the interested entities in order to:

- Understand the opportunities and risks generated by FinTech;
- Support the identification of the legislation applicable for the proposed innovation;
- Guidance regarding FSA expectations on the supervision of the innovative activities.

At the same time, through specialists from the FinTech Hub framework, the Financial Supervisory Authority together with the Bucharest University of Economic Studies participated in a project with European funding through the 2020 Horizon Program. The purpose of the programme is to carry out a training/formation platform in the financial innovation domain, which brings together numerous competent authorities and fintech companies in order to understand better the technological innovations and for promoting their development.

5

Consumer Protection Policy

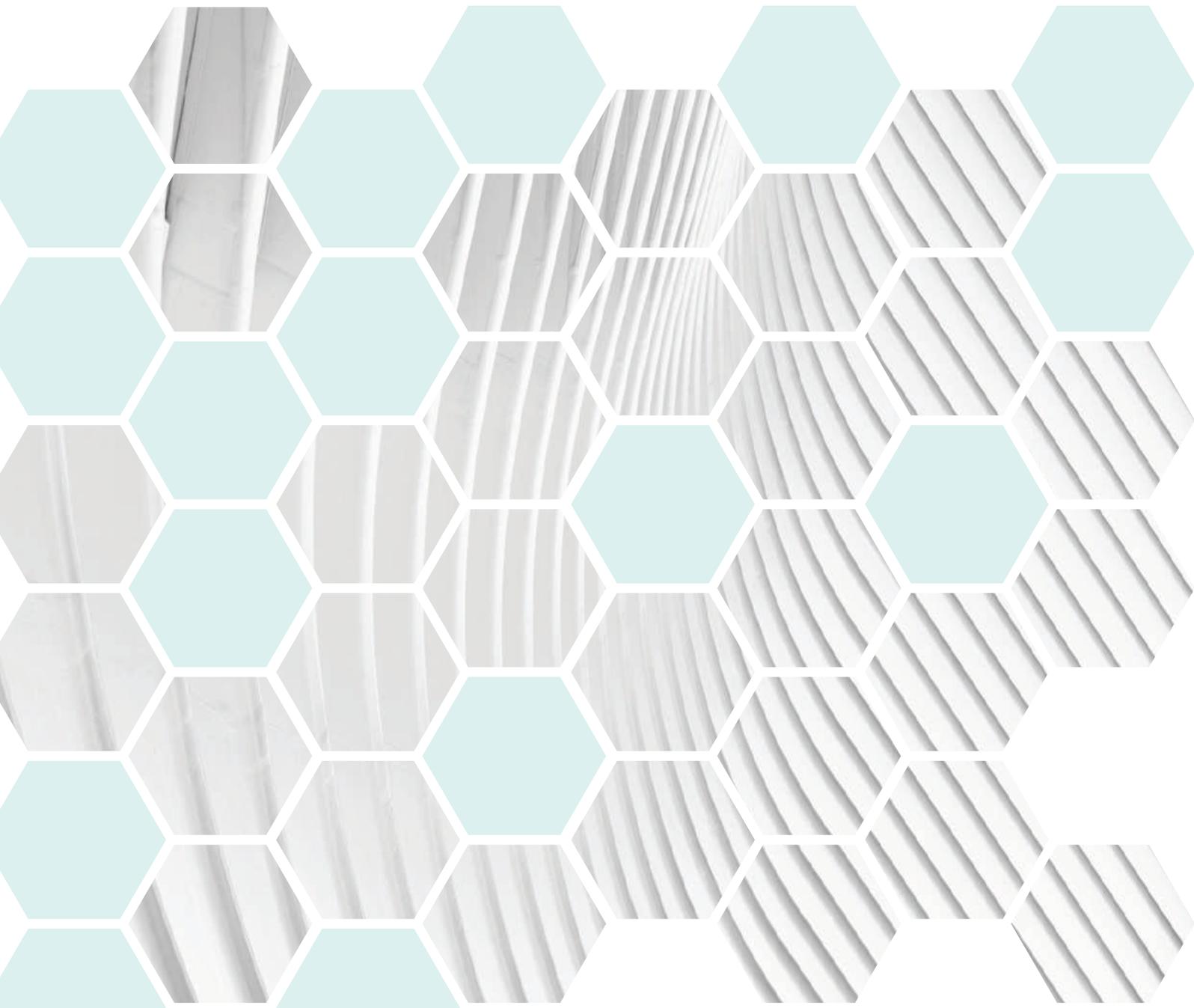


Furthermore, in 2019, FSA approved the **Consumer Protection Policy** which envisaged the creation of an integrated organisational framework, necessary for drafting the FSA programs in the consumer protection and financial education domain, through preventive measures for monitoring and warning regarding the possible breaches of the rights and interests of the consumers and through reactive measures for handling and solving the complaints.

The consumers' protection represents one of the FSA key priority objectives.

FSA continues the monitoring of the potential risks and benefits for the consumers of the by non-banking financial products, especially those deriving from innovations and the specific evolution of each market. The focus is placed on the preventive actions, so the possible proposals for the adjustment measures can be decided before some possible irreversible dysfunctions can appear.

Financial stability and macroprudential supervision of the non-banking financial system



Financial stability and macroprudential supervision of the non-banking financial system

The financial stability describes that state of the financial system (made up mainly from intermediaries, markets and market infrastructures) which grants its capacity to resist shocks, without interrupting or significantly affecting its financial intermediation function and continue to offer necessary financial services and products for the entities and activities in the real economy. The financial stability is affected when one or more systemic risks materialise. For its consolidation, the authorities responsible at the local and international level use macroprudential policies and instruments which have as main objective safeguarding the financial stability and mitigation or elimination of the systemic risks. The effects of the systemic risks can manifest themselves both upon the evolution of the economy, as well as upon the financial intermediation. In the usual classification by risk category, the components of the systemic risk can be identified as market risk, credit risk, concentration risk, liquidity risk, solvability risk, operational risk etc. Numerous features exist according to the type of financial institution, analysed asset grades, interdependent with the functioning of the public administration (sovereign risk), stage in the cycle framework of the economy's evolution, cross-border influences and links, types of analysed vulnerabilities.

At the European level, the financial system supervision is the responsibility of the European System of Financial Supervision (ESFS), made up of the European Banking Authority (EBA), European Securities and Markets Authority (ESMA), European Insurance and Occupational Pensions Authority (EIOPA), Joint Committee of European Supervisory Authorities (CCAES) and the European Systemic Risk Board (ESRB), as well as the national competent authorities. ESFS was created as a decentralised system, hierarchized, of the micro and macroprudential authorities to ensure the consistent and coherent financial supervision in the European Union.

After the 2008-2009 global financial crisis, the European Union Member States, through a common institutional framework created with the purpose of supervising and regulating the financial system, aimed at defining and implementing some policies aimed at this risk categories. A first step was the identification of the financial system's vulnerabilities and the operational definition of their systemic risks. Later, the effort continued with the establishment of some intermediary objectives for the macroprudential policies, as well as the creation of the adequate tools to be placed at the disposal of the competent authorities and offer the framework through which the identified vulnerabilities can be handled.

Especially after the global financial crisis, the international community of the authorities with role in ensuring the stability of the financial system started a long and difficult effort of identification, drafting, calibration and application of some policies improving its resilience towards the potential internal (for example the failure of some financial companies, cost increases, technological changes) or external shocks (for example economic recessions, geopolitical events).

Until several years ago, the measures were focused towards macroprudential instruments and policies dedicated to the banking sector, considering its role and place in the relation with the proper functioning of the real economy. However, in the recent years, it increased the preoccupation towards the risks and vulnerabilities generated or transmitted within the non-banking financial markets, together with the growth of their contribution to the financial intermediation. The results

obtained until present differ in terms of diversity and covering degree between the components of the non-banking financial system. The most important advancement was achieved in the insurances area, investment funds and central counterparties.



THE MACROPRUDENTIAL POLICY AIMS AT:

- prevent the excessive risk accumulation resulting from external factors and market failures;
- increase the resilience of the financial sector to shocks and limit the contagion effects, as well as
- encourage the adoption of a large perspective regarding the financial regulation for creating the correct stimulants for the market participants.

At the local level, macroprudential policy regarding the financial system accrues to the National Committee for Macroprudential Oversight, made up of the National Bank of Romania, the Financial Supervisory Authority, the Ministry of Public Finance, and the Bank Deposit Guarantee Fund. **The fundamental objective of the Committee is to contribute to the safeguarding of the financial stability, including through the consolidation of the financial system capacity to resist to shocks and through the decrease of the systemic risk accumulation, ensuring a sustainable contribution of the financial system to the growth economic.**

National Committee for Macroprudential Oversight

The National Committee for Macroprudential Oversight is the macroprudential authority according to the recommendations of the European Systemic Risk Board (ESRB), as well as the authority designated according to the CRD provisions (*Capital Requirements Directive 2013/36/EU on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms*) and CRR provisions (*Capital Requirements Regulation - (EU) Regulation no. 575/2013 on prudential requirements for credit institutions and investment firms*). In exercising its tasks, CNSM issues recommendations and warnings addressed to NBR, FSA and the Government with the purpose of maintaining the financial stability, based to the *comply or explain* regime. CNSM is led by a General Council made up of 9 members, of which 3 FSA representatives:

President

Prime
Vice-president

1 vice-president
designated by the
FSA Council

The National Committee for Macroprudential Oversight has the following tasks:

- ▶ Identifying, monitoring and evaluating the systemic risks, as well as collecting and analyzing the necessary information for their exercising;
- ▶ Identifying the systemic risk institutions;
- ▶ Drafting the macroprudential policy strategy;
- ▶ Establishing, periodic re-evaluation and monitoring the intermediate objectives of the macroprudential policy;
- ▶ Establishing and re-evaluating the macroprudential instruments;
- ▶ Issuing recommendations and warnings addressed to the National Bank of Romania, FSA and the Government for the purpose of maintaining the financial stability. The institutions receiving these recommendations are based on the comply or explain regime;
- ▶ Monitoring the implementation of the recommendations;
- ▶ Issuing the consultative opinions;
- ▶ Coordinating the financial crisis management;
- ▶ Ensuring the cooperation and information exchange with the European Commission, European Banking Authority, European Committee for the Systemic Risk and the equivalent authorities in other states.

The CNSM General Council met in 6 sessions during 2019.

Macprudential policy strategy

For the applying of the *Recommendations ESRB/2013/1 dated April 4th, 2013 of the European Systemic Risk Board (ESRB)*, the national macroprudential authorities have defined **the intermediate objectives of the macroprudential policies for their overall national financial system**.

Also, according to the ESRB recommendations mentioned above, the European Union Member States must evaluate, in cooperation with the macroprudential authorities, if the macroprudential instruments, presently under the direct control or in the field of competence of these authorities, are sufficient in order to actually and efficiently reach the final objective of the macroprudential policies, as well as of their intermediate objectives. The evaluation foresees that the macroprudential authorities should have a direct control or in the field of competences to recommend **at least a macroprudential instrument for each intermediate objective of the macroprudential policies**, although it is possible for several more instruments to be required.

Considering the features of the monitored non-banking financial markets, at the end of 2017, FSA undertook **7 intermediary objectives and 13 macroprudential instruments**, which were discussed in CNSM and communicated to the ESRB.

In 2019, the National Committee of Macroprudential Oversight did not issue new recommendations addressed to the FSA. The Financial Supervisory Authority remained responsible for complying with the *CNSM Recommendations no. R/4/2018, with permanent deadline, regarding the implementation of the macroprudential instruments for fulfilling the intermediate objectives comprised in the general framework regarding the strategy of the macroprudential policies of the National Committee for Macroprudential Oversight*.

Manner of fulfilling the CNSM recommendations with permanent deadline

FSA carries out periodic analysis regarding the risks and vulnerabilities identified in the three monitored non-banking financial markets, as well as the opportunity to implement the existing macroprudential instruments. Until presently, the following macroprudential measures were implemented:

- At the investment firms level (IF): the capital conservation buffer (implemented in 4 annual instalments equal to 0.625% of the overall value for the risk weighted exposures, during the January 1st 2016 - January 1st 2019 period):
 - ◊ From January 1st, 2016 – 0.625%.
 - ◊ From January 1st, 2017 – 1.25%.
 - ◊ From January 1st, 2018 – 1.875%.
 - ◊ From January 1st, 2019 – 2.5%.
- Regarding the countercyclical capital buffer and systemic risk buffer, until present there is no condition which impose the creation of a level higher than 0% for this shock buffer in the case of the investment firms (IF);
- In the case of the insurance companies, FSA maintained the macroprudential elements implemented before:
 - ◊ liquidity ratio of the insurance companies: monitoring and analysis with at least quarterly frequency of the liquidity coefficient related to the insurance companies;
 - ◊ recovery plan: in 2019, FSA received a single revised recovery plan from an insurance company;

◇ policyholders Guarantee Fund.

- In the case of the pension private market, in 2019, FSA maintained the macroprudential instrument regarding the restrictions related to the significant exposures regulated by the *Law no. 411/2004 regarding the privately managed pension funds*, *Law no. 204/2006 regarding the voluntary pension* and the *Norm no. 11/2011 regarding the investment and evaluation of the private pensions asset fund*;
- In the case of the private pensions funds' managers, in order to avoid the concentration to a low number of issuers, it was maintained the exposure limit towards an issuer at 5% of the net asset, and the exposure towards a group of issuers and its affiliated individuals cannot surpass 10% of the private pension fund's assets;
- All entities monitored by FSA apply the requirements regarding the IT system safety. These were implemented through the *Norm no. 4/2018 regarding their operational risk management generated by the IT systems used by authorised/cleared/registered entities and/or monitored by the Financial Supervisory Authority*, according to whom the non-banking financial entities annually communicate to the FSA self-evaluations of their IT risks as well as IT audit reports (whose frequency differs according to the risk class in which it is framed each entity).

Identification and monitorisation of the risks, tendencies and vulnerabilities related to the financial stability

Potential risks in the insurance market

The high degree of concentration on the insurance market represents a vulnerability both from the angle of the exposure by insurance classes, as well as from the perspective of the market shares significantly held by a relatively small number of insurance companies.

From the perspective of the exposure by classes, the Romanian insurance market is characterised by a high degree of concentration both for the segment of the non-life insurance (where it persists the domination of the motor insurance in the local market), as well as regarding the life insurance activity.

The dependency of the motor insurance local market brought losses to the insurance companies over time. It can be seen some supra-unitary combined ratio for the classes A10 (MTPL – Motor Third Party Liability and CMR – Civil insurance for the carrier's liability) and A3 (CASCO) during the 2018 – 2019 period, which indicates losses of the companies in these lines of business. Furthermore, the gross indemnities paid for these classes of insurance had a value of Lei 4.91 billion in 2019, representing 85% of the overall gross indemnities paid for the non-life insurance, namely 72% of the total gross compensation volume paid at the entire market level.

In this regard, in order to diminish the dependency of the insurance market to the motor insurance, FSA carried out a series of financial education programs for the purpose of diversifying the interest of the Romanian consumers for a larger variety of insurance products and services.

For the diversification of the insurance market and the development of other insurance segments in order to reduce the dependency to the motor insurance market, FSA created working groups which aim at developing the agricultural and health insurance markets.

For the health insurance it was proposed a series of measures beginning in 2016 (including the technical clarifications regarding the application of the tax deductions for the private health insurance policies). Thus, a more detailed analysis of the evolution for this market shows an increase of the gross written premiums volume for health insurances, from a 0.34% ratio in 2009, up to 2.45% ratio in 2019 for the health insurance equivalent to the non-life insurance in the total of the gross written premiums for the entire non-life insurance activity, namely from 0.56% in 2009 up to 7% in 2019 for the ones equivalent to the life insurances totalling gross written premiums at the level of the life insurance market.

From this perspective, it is observed a diversification tendency of the interest of the consumers for the health insurance products, which implicitly leads to the development of these insurance segments. In the long run, the development of the health insurances market can determine the improvement of their companies' profitability by reducing the insurance dependency for those segments with heavier losses, leading to ensuring a financial stability for the entire Romanian insurance market.

Potential risks in the Instrument and Financial Investment Sector

The main risks to which it is exposed the market of the investment funds continues to remain the market risk, the credit risk and the counterparties concentration risk. The credit risk has a reduced level considering the high ratio of the sovereign bond in the portfolios of investment funds where fixed income instruments dominates. However, the market risk constitutes a concern, which can be seen as normal considering the profile of the institutional investors of these entities and which is managed mainly through diversification and via instruments for risk hedging (in the case of the exchange rate risk).

From the perspective of the operations on the Bucharest Stock Exchange, the overall equity turnover value diminished significantly in 2019 compared to 2018, the value of the traded equities (equities, rights and fund units) decreasing with 15%, while the value of the traded government bonds reduced with approximately 97%. This evolution determined an amplification of the liquidity risk, in the context in which the Romanian stock market was already promoted to the emerging market status.

The solvability risk of the IFs was reduced during 2019. Thus, the cumulated value of the IFs own funds increased significantly compared to December 2018 with approximately 10%, reaching the level of Lei 173 million and temporarily inverting the tendency to decline of this indicator's value.

Out of a total of 18 IFs, 14 IFs obtained profit in 2019, the cumulated value of their profits being of approximately Lei 27.56 million. The cumulated loss of the 4 IFs which had negative results was of approximately Lei 2.46 million. The results indicate the persistence of the profitability risk at the market level, its level being lower compared to the previous years.

Potential risks in the private pension system sector

Following the adoption of the *Government's Emergency Ordinance no. 114 dated December 28th 2018 regarding the instituting of some measures in the public investment domain and of some tax and budget measures, amending and adding to some normative documents and extending some deadlines*, a person participating to a privately managed pension fund might opt, but not before 5 years of contributing to the said fund, to transfer to the public pension system (the personal asset of the participant will remain in his/her private account until retirement). Until February 2020, only 573 individuals have requested the transfer of the future contributions to the Pillar I, from this point of view, the liquidity risk being maintained stable. Later, given the provisions of the *Government's Emergency Ordinance no. 1/2020 regarding some tax and budget measures, amending, and adding to some normative documents*, the article regarding the possibility to transfer the contributions in the public pension system was abrogated.

The interest rate risk and the systemic risk depend on the elements of the general investment climate, at the local and international level, not being included in the influence sphere of the fund managers, while the volatility and the individual risk are managed at an adequate level through the diversification policies of the portfolios applied by the fund managers.

The risks related to the stability and the proper functioning of the pension funds are maintained at decreased levels, due to the defined contribution mechanism of the private pension system (at the level of the net contribution amount). This excludes from the very beginning the solvability risk which constitutes the main preoccupation in the case of the defined benefit pension systems (existing mainly in other states in Europe).

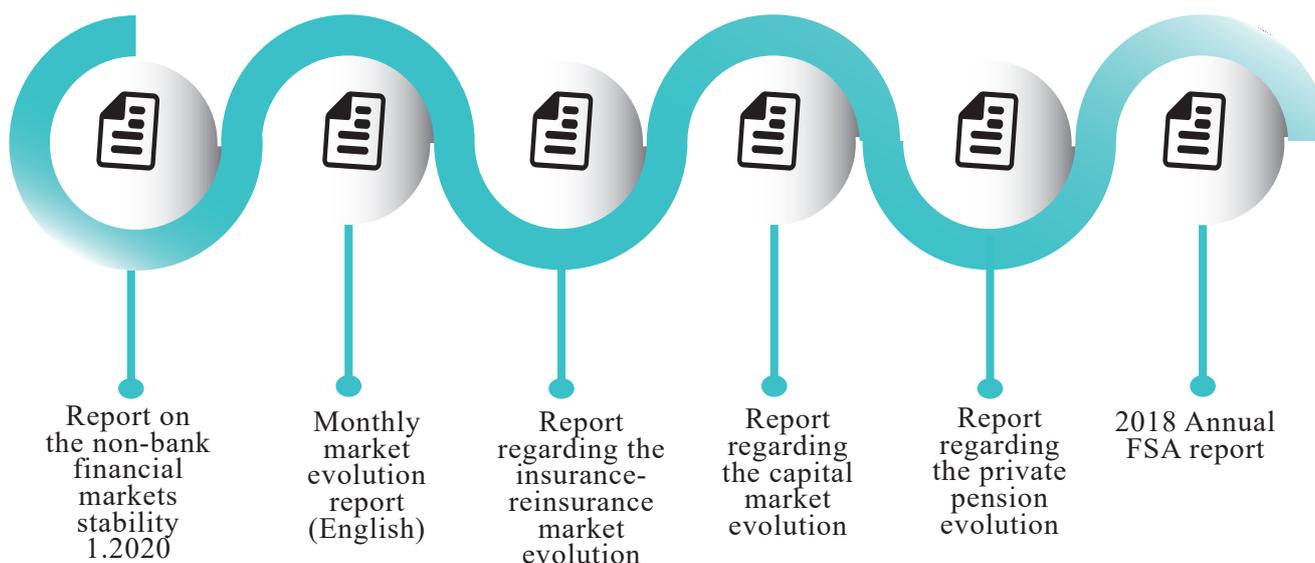
Furthermore, a series of other relevant risks for this field (for example, the risk regarding a possible insufficient income replacement rate from the active period with the one in the private pension or the liquidity risk) are not applicable for the moment in the case of the Romanian private pensions system due to its reduced maturity and the yet insignificant ratio of the participants close to the

retiring moment at the age limit.

The assets of the privately managed pension funds dispose of more safety elements, among which we remind: minimum return rate, guaranteeing the net contributions, fund asset separation from the manager's funds, prudential supervision, and the Guarantee Fund.

Periodical publications for the increased transparency of the monitored markets

In order to increase the transparency and informing degree of the financial consumers, FSA drafted in 2019 a series of periodical reports published on the FSA website.



The report on the non-bank financial markets stability is an extensive analysis of the macroeconomic context and of local and international financial markets, with a focus on the long term evolution of the Romanian non-banking financial sector, namely the stability of the private pension market, the capital markets and the insurance stability market, the interconnection on the financial non-banking markets and the macroprudential policies. Drafting a financial stability report is in line with the practices at the national level in several Member States of the European Union which have an institutional architecture regarding the micro- and macroprudential supervision of the financial system similar to the one existing in Romania.

The report contributes to the FSA's institutional communication policy and to the consolidation of the Authority's image in the domain of the macroprudential policies, financial stability and sustainable development for the supervised markets. Moreover, the report makes use of the cumulated experience, the developed methodologies, and the FSA practice in the last years in the analysis field of the tendencies, risks and vulnerabilities. The first edition of this report was issued in 2019, this being published on the FSA website, later being realized with a semi-annually frequency.

FSA publishes in English a **monthly evolution report** for the non-banking financial markets with the purpose of increasing the notoriety, visibility and transparency on the international level, at the same time with the attractiveness of the Romanian financial markets.

The report regarding the insurance market evolution presents the main insurance market indicators: (1) insurance companies (gross written premiums, insurance contracts, gross indemnities

paid, loss ratio, technical provisions, insurance/reinsurance company liquidity, statistical data in the Solvability II regime, house insurance, MTPL market), (2) branches (gross written premiums, gross indemnities paid) and (3) insurance/reinsurance brokers (insurance intermediation activity, income obtained from insurance intermediation activity).

The report regarding the capital market evolution presents a general view of this sector for the said quarter: primary market, statistics regarding the issuers, new issuance of financial instruments and other corporative events), secondary market (BSE evolution), intermediaries and collective investment schemes.

The report regarding the evolution of the private pension market includes statistics related to the Romanian private pension system, both for the privately managed pension fund, as well as for the voluntary pension fund: the number of participants, transferred contributions to the pension funds, the payment of the net asset in case of retiring, the investment structure and the return rate.

All the mentioned reports are published on the FSA website, for the purpose of increasing the transparency regarding the monitored markets.

The periodical reports published on the FSA website add to a series of periodical analysis for informing, with daily, weekly, monthly, quarterly, and semi-annual frequency. The daily and weekly reports are distributed internally but also sent to other public institutions with strategic interest.

Measures for preventing and decreasing the IT risk for the purpose of ensuring the stability of the non-banking financial system

FSA implemented an instrument for the IT risk evaluation through the *Norm no. 4/2018 regarding the operational risk management generated by computer systems used by authorised/cleared/registered entities, regulated, and/or monitored by the Financial Supervisory Authority*. This establishes the requirements for the identification, prevention and reduction of the potentially negative impact of their operational risks generated by using the information and communication technology at the level of the people, processes, systems and external environment, including for facts related to the cyber criminality. Furthermore, the norm regulates the activities and operations for the evaluation, supervision and control of the operational risks generated by using the information systems, as well as managing the risks regarding the computer system's security.

According to the provisions of this norm, the entities are classified in four risk categories, each of them having established their mandatory risk evaluation activities.

The distribution of the FSA-monitored entities in each risk category at the end of 2019 was the following:

1 “Major risk” category:

- 1 market operator;
- 1 central depository;
- Romanian Motor Vehicle Insurance Bureau;
- 4 private pension fund managers.

2 “Important risk” category:

- 4 IF¹ significant from the point of view of the size, internal organisation and nature, extension of and complexity of the activity, according to the specific regulations;
- 18 intermediaries using the transacting facilities via internet (ADP/AS)² - platforms for processing and communicating the client's orders;
- 1 intermediary (which is also significant IF) which has the market maker and/or liquidity provider quality;³
- 28 insurance and reinsurance companies;
- 4 entities carrying out the placement of the bodies' asset depositing activity;
- 5 private pensions fund managers.

¹ Inclusion, namely the re-framing of the entities is carried out in January of each calendar year, based on the activity authorised by the FSA and by owing a market maker/liquidity supplier status on the last business day of the previous year.

² Inclusion, namely the re-framing of the entities is carried out in January of each calendar year, based on the activity authorised by the FSA and by owing a market maker/liquidity supplier status on the last business day of the previous year.

³ Inclusion, namely the re-framing of the entities is carried out in January of each calendar year, based on the activity authorised by the FSA and by owing a market maker/liquidity supplier status on the last business day of the previous year.

3 “Average risk” category:

- 9 investment management companies (IMC), alternative investment fund managers (AIFM)⁴ - which own net assets in the portfolio/overall managed, cumulated for all the managed funds, of more than Eur 250 million, equivalent in lei;
- 1 intermediary⁵ which carries out auxiliary services for safe keeping and managing the financial instruments in the clients’ account, including the custody and the related services, such as fund or guarantee management;
- Investor Compensation Fund;
- Policyholders Guarantee Fund;
- Private Pension System Rights Guarantee Fund;
- 1 administrator of private pensions funds.

4 “Low risk” category:

- 13 investment management companies (IMC), alternative investment fund managers (AIFM)⁶ - holding net assets in the portfolio/administered in the overall value, cumulated for all the managed funds, of up to Eur 250 million, equivalent in lei;
- 1 intermediary which does not transact on its own and it is not included in the categories from 1-3; ⁷(they are not intermediaries with independent operator status, are not IF significant from the point of view of the size, internal organisation and nature, activity extension and complexity, are not intermediaries carrying out related services for safe keeping and managing the financial instruments in the clients’ account, including the custody and the related services, are not intermediaries using the transacting facilities over the internet (ADP/AS), are not intermediaries having the market makers and/or liquidity provider status);
- 287 intermediaries carrying out the distribution activity for the insurance and reinsurance products.

⁴ Inclusion, namely the re-framing of the entities is carried out in January of each calendar year, on the basis of the total value of the net assets in the portfolio/managed on the last business day of the previous year.

⁵ Inclusion, namely the re-framing of the entities is carried out in January of each calendar year, based on the activity authorised by the FSA and by owing a market maker/liquidity supplier status on the last business day of the previous year.

⁶ Inclusion, namely the re-framing of the entities is carried out in January of each calendar year, on the basis of the total value of the net assets in the portfolio/managed on the last business day of the previous year.

⁷ Inclusion, namely the re-framing of the entities is carried out in January of each calendar year, based on the activity authorised by the FSA and by owing a market maker/liquidity supplier status on the last business day of the previous year.

The resolution mechanism of the insurance companies and of the investment firms

FSA acts as resolution authority, since 2015, thus:

1. for the insurance companies, based on the provisions of the *Law no. 246/2015 regarding the recovery and resolution of the insurers*;
2. for the investment firms, based on the provisions of the *Law no. 312/2015 regarding the recovery and resolution of the credit institutions and of the investment firms*, as well as for the amendment and addition to the normative documents in the financial domain.

Insurance companies subject to the recovery and resolution planning regime

The insurers which hold a significant share in the national insurance system and, thus, are subject to the provisions of the recovery and resolution planning are identified based on the provisions of art. 3 in the *Law no. 246/2015 regarding the recovery and resolution of the insurers*, based on the following criteria:

1. value of the insurer's gross technical provisions surpasses 5% of the overall value of the gross technical provisions at the market level;
2. owns a market share of at least 5%, thus:
 - a. for life insurance, according to the ratio between the gross technical provisions of the undertaking and the total gross technical provisions of all of the undertakings underwriting life insurance;
 - b. for non-life insurance, according to the ratio between the value of the gross written premiums of the undertaking, direct and from reinsurance acceptance and the total value of the gross written premiums, direct and from reinsurance acceptance, of all undertakings underwriting non-life insurance.

The identification of the insurers having a significant share in the national insurance system is carried out based on the financial results of the concluded financial year. Reported to the financial year concluded on 31.12.2018, there are 10 insurance companies which have a significant share in the national insurance system.

The investment companies subject to the recovery and resolution planning regime

Reported to the types of entities foreseen in art. 3 alignment (2) of the *Law no. 312/2015 regarding the recovery and resolution of the credit institutions and of the investment firms*, as well as for the amendment and addition to the normative documents in the financial domain for which FSA fulfils the resolution function, on 31.12.2018 the situation was as the following:

1. 10 investment firms were registered, from the investment firm category authorised to carry out financial investment services and activities, which are subject to an initial capital requirement representing the equivalent in lei of Eur 730,000;
2. there were no branches in Romania of investment firms from third-party states and neither

groups subject to the surveillance on a consolidated basis, whose mother-company might be an investment firm or which, in the case in which the mother-company is a financial holding company or a mixed financial holding company, does not include also a credit institution.

Moreover, the provisions regarding the planning of the recovery and of the resolution for the credit institutions are found in art. 13-48 and 49-84 of the *Law no. 312/2015 regarding the recovery and resolution of the credit institutions and of the investment firms, as well as for the amendment and addition to the normative documents in the financial domain*, and these subscribe to the general principle foreseen by art. 9 of the same law which mentions the following:

“Art.9. - (1) Credit institutions constituting a significant share in the national financial system shall draw up their own recovery plans in accordance with Articles 13-48 and shall be the subject of individual resolution plans in accordance with Articles 49-84.

Art.9. - (2) For the purposes of this article, a credit institution shall be considered to constitute a significant share of the national financial system if any of the following conditions are met:

a) the total value of its assets exceeds EUR 30 billion;

b) the ratio of its total assets over the GDP of Romania exceeds 20%, unless the total value of its assets is below eur 5 billion.”

The value of the assets cumulated owned by all these 10 IFs was, on 30.09.2019, of Eur 142.6 million, in the conditions in which the highest value owned by a IF was of Eur 35.73 million. The conclusion is that no investment firm was holding, in 2019, a significant share in the national financial system.

Activities regarding the recovery planning for the insurers and the investment firms

Regarding the prevention and recovery, during October 2019, FSA received a single revised recovery plan from an insurance company.

Regarding the planning of the investment companies' recovery, in 2019, FSA carried out the following activities:

- data collecting regarding the assets of the investment firms and sending to the National Bank of Romania the notifications according to which no investment firm fulfils the requirements regarding the possession of an important weight in the national financial system in order to draft their own recovery plans;
- transposing the European Banking Authority Guide on the interpretation of the different circumstances when an institution shall be considered as failing or likely to fail under article 32 alignment (6) of the *Directive 2014/59/EU establishing a framework for the recovery and resolution of credit*;
- drafting the System Procedure regarding the interpretation of the various circumstances in which an investment firm is considered as failing or likely to fail under the article 32 alignment (6) of the *Directive 2014/59/EU establishing a framework for the recovery and resolution of credit institutions and investment firms*;
- correspondence with National Bank of Romania regarding the investment firms which are part of the banking groups for which the National Bank of Romania is the resolution authority.

Activities regarding the resolution planning for the insurers and the investment firms

During 2019, FSA carried out the following:

- drafted a template of the resolution plans, as well as a template regarding the quantitative

information necessary for drafting the resolution plans;

- updated the Resolution plan for an insurance company;
- drafted the first version of the Resolution plan for an insurance company.

Moreover, measures were taken for drafting the first version of the resolution plan for two insurance companies.

Inter-institutional collaboration with the National Bank of Romania

In October 2019, the National Bank of Romania organised an exercise and simulation, in partnership with the World Bank, through which it was aimed at several objectives, the most important being: the quantitative evaluation of the circulated situations and information and communication. To this exercise participated also FSA, together with the Ministry of Public Finance and the Bank Deposit Guarantee Fund.

Activities regarding to the resolution for the insurers and the investment firms

During 2019, there were no situations which would have triggered the resolution mechanism for any insurer owing a significant share in the national insurance system. Moreover, there were not investment firms holding a significant share in the national financial system.

Activities regarding the legislative framework related to the recovery and resolution for the insurers and the investment firms

FSA has carried out a preliminary evaluation of the judicial framework regarding the application of the recovery and resolution mechanism of the Romanian insurers from the perspective of the recommendations and based on the methodology of the Financial Stability Board.

Moreover, it was realized a comparative analysis of the resolution framework for the insurers in Romania, France and the Netherlands (the only EU Member States who have legislation regarding the insurers' recovery and resolution), and this analysis was integrated in a material in which also the EIOPA actions were exemplified regarding the harmonising recovery and resolution framework for the insurers in all the EU Member States.



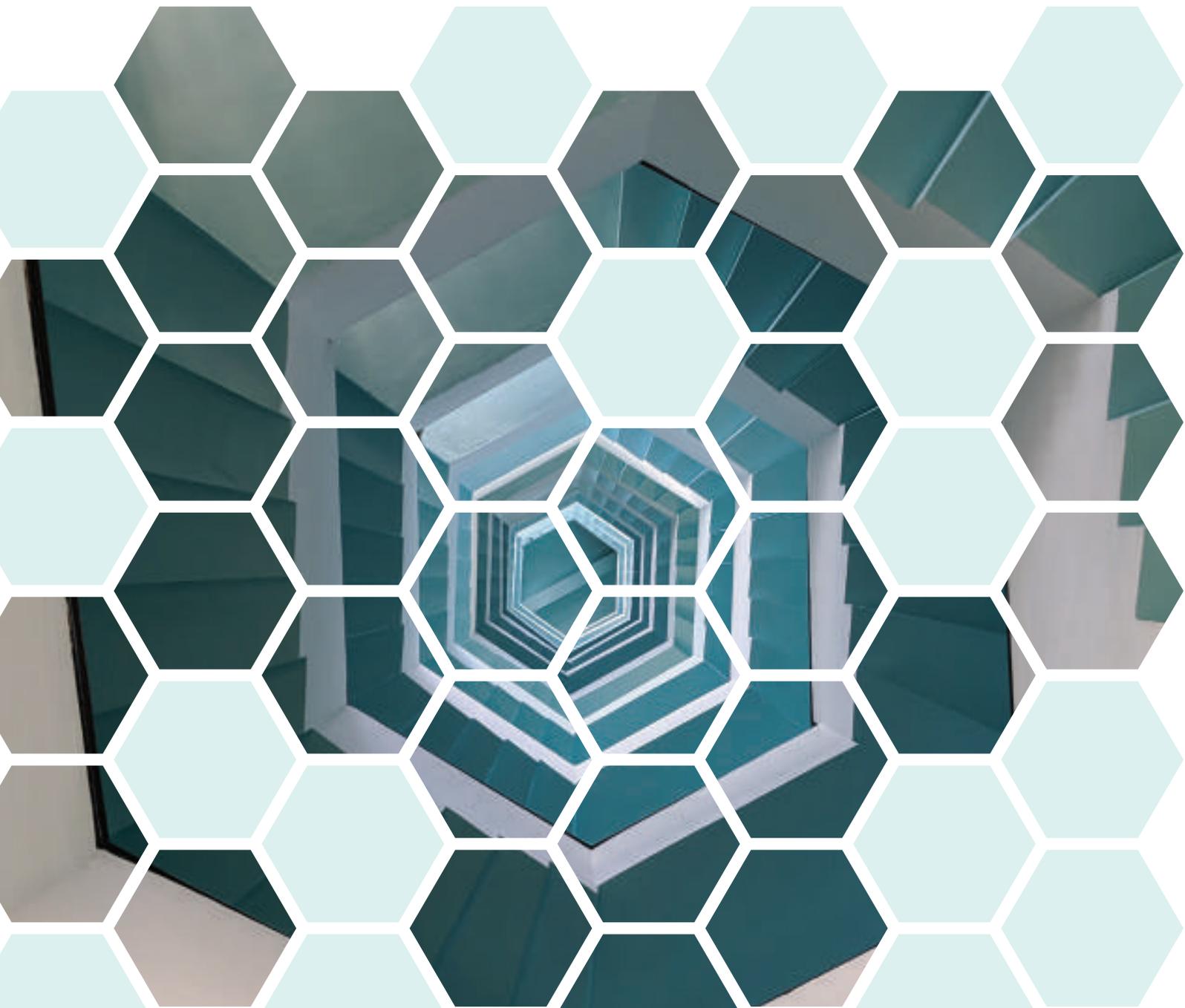
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2019



Microprudential supervision of the non-banking financial system



Supervision of the regulated entities which carry out inter-sectorial activities, identification and additional supervision of the groups which are part of a financial conglomerate for which FSA is the designated coordinating competent authority

In 2019, FSA considered the identification of those entities authorised and monitored which carry out, directly or by a branch, activities in several financial supervision sectors, as well as those belonging to a financial conglomerate and for which the FSA is the coordinating competent authority, according to the *Government's Emergency Ordinance no. 98/2006 regarding the additional supervision of the credit institutions, insurance and/or reinsurance companies, investment firms and of the investment management companies in a financial conglomerate*.

Following this activity, no authorised and monitored entities were identified belonging to a financial conglomerate and for which FSA is the coordinating competent authority, according to the *Government's Emergency Ordinance no. 98/2006 regarding the additional supervision of the credit institutions, insurance and/or reinsurance companies, investment firms and of the investment management companies in a financial conglomerate*.

Moreover, this process constituted an important activity in the integrated supervision of the entities carrying out the inter-sectorial activities and of the groups, part of the micro-prudential supervision of the non-banking financial system. Thus, 4 groups and 2 entities carrying out the inter-sectorial activities through the same legal entities (entities with inter-sectorial activity) were the object of the integrated monitoring in 2019.

The integrated monitoring activity consisted in carrying out the analysis from the point of view of the corporative governance, the risk monitoring, financial solidity, externalities and operations in the group's framework which might have an impact upon the activities authorised, regulated and monitored by the FSA, as well as from the point of view of the financial stability.

The monitoring activity of the tendencies and of the non-banking financial market risks has the purpose to ensure the financial stability and increasing the trust of the participants and of the financial services consumers in the non-banking financial markets monitored by FSA.

The integrated supervision activity regarding the monitoring of the tendencies and of the non-banking financial market risks both at the national level, as well as the international level consider the identification of some signals related to some risks or deterioration of the indicators which might affect the entities carrying out the activity in the non-banking financial markets monitored by the FSA. The results of the monitoring are centralised in reports (monthly and quarterly) and the analysis which are the foundation of some possible proposals of measures, alerts and warnings with the purpose of avoiding events which can affect the entities carrying out the activity in the framework of the non-banking financial markets monitored by FSA.

The reports and analysis are drafted regularly, considering:

- **the existence of some risks which have a high probability to trigger**, influenced by the important political and economic decisions to national level, European or global which can manifest also in the non-banking financial markets monitored by the FSA;
- **the tendencies manifested in the case of some indicators or activities in an economic or financial sector** which can influence, generate or transfer risks in the framework of the non-banking financial markets monitored by the FSA, according to the negative tendencies or the identified vulnerabilities, considering the fact that the financial flows are integrated at least at the unique European market level, and a larger or lower impact on the financial sector or upon the categories of entities regulated can manifest according to their exposures to the identified risks.



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Entities from the insurance-reinsurance sector monitored by the FSA

28

insurance companies authorized and regulated by FSA

15

**non-life
insurance
companies**

7

**life insurance
companies**

6

**composite
insurance
companies**

15

branches based on FOE (freedom of establishment)

796

companies notified to the FSA based on FOS (freedom of services)

287

active brokerage companies

Romanian Motor Vehicle Insurers' Bureau (BAAR)

Policyholders Guarantee Fund (FGA)

Supervision of the insurance-reinsurance sector

In 2019, the supervision of the Romanian insurance sector was focused on promoting the stability of the insurance activity and the protection of the insured' rights by: strengthening the supervision system, developing new supervision instruments based on the evaluation of risks generated by the insurance-reinsurance activity, carrying out the activities established in the supervision plan of the insurance-reinsurance companies and carrying out the annual periodic inspection measures, according to the annual integrated inspection plan as well as the ad-hoc inspection measures. Furthermore, regarding the insurance intermediaries, FSA proceeded to monitoring the implementation of the *Law no. 236/2018 regarding the insurance distribution in order to ensure an adequate conduct of the insurance distributors in the relation with clients on during the life cycle of the insurance products.*

Off-site supervision of the insurance companies

In the framework of the insurance-reinsurance sector, with the support of the experts designated by EIOPA, it was established the measures necessary for the improvement of the supervision function within its assembly and for the transposing of the best European practices and principles in the current activity of the Authority. In this regard, it was established a series of tools and operational procedures, which will be the foundation of ensuring the most efficient supervision methods for the insurance market, for detecting the major risks for the financial stability, both from the micro- as well as macro-prudential perspective.

Strengthening the supervision system, developing new supervision instruments based on the evaluation of the risks generated by the insurance - reinsurance activity

During the period October 2017 - November 2018, through a project financed by European funds, FSA received consultancy from EIOPA for the consolidation of the insurance supervision function, which had as final result the drafting of a Supervision Handbook, hereinafter the Handbook. This includes the most efficient supervision instruments of the Romanian insurance market, in order to detect the major risks to which insurance companies are exposed and ensure the financial stability, both from the micro- as well as macroprudential perspective. Within the Handbook, it was included also the good practices for the insurance companies regarding the adequacy of the technical provisions.

The supervision guide was structured in two main sections: the section for ensuring a consistent approach regarding the evaluation of the executive management and of the shareholders with qualified participations at the time of the evaluation and during the exercising of the function and the section regarding the off-site and on-site supervision of the strategic risks, of the company's business models, fulfilling the ORSA (Own Risk Solvency Assessment) requirements, adequacy evaluation for the technical provisions constituted by the companies and drafting a risk assessment framework (RAF) for each insurance company.

In the context of finalizing the **EIOPA Supervision Handbook** in April 2019, FSA launched, beginning with May 2019, the project regarding the drafting of the procedures necessary for

implementing the EIOPA supervision Handbook. Starting from the chapters of the EIOPA Handbook, the project team drafted an extended set of internal procedures which have transposed the recommendations from the Handbook in documents structured and adapted to the organizational specificity of the FSA. The internal procedures will ensure a unitary and comprehensive framework for carrying out the supervision activity according to the Solvency II framework.

The purpose of the internal procedures is that of instituting at the FSA level a governance system for the functional and efficient supervision process, the procedures establishing the supervision objectives, responsibilities, functions and activities allocated to each structure in the framework of the supervision process.

The internal procedures aim at the organization of the *supervisory review process* (SRP) of the insurance companies, defining the evaluation methodology and classification of the insurance and/or reinsurance companies (RAF), according to their risks and impact on the insurance market, clearly establish the working manner and the responsibilities of the FSA structures involved in the supervision process, complying with the specific competences and responsibilities, ensuring:

- the implementation of the risk based supervision;
- periodic evaluation of the insurance and/or reinsurance companies according to the risks and impact/damage which their bankruptcy might trigger to the insured/beneficiaries, to the stability of the insurance market in Romania and in the other European Union Member States within which they carry out their activity;
- drafting and updating the supervision plan of the companies, allocating resources for the high-risk areas and areas with significant impact and initiating supervision measures;
- applying supervision measures in a consistent, proportional and objective manner;
- ensuring a consistent and equitable treatment for the insurance and reinsurance companies, by aligning the supervision activity with the best international practices;
- resource allocation and application of the supervision measures in a consistent, proportional and objective manner, as well as ensuring the transparency of the supervision process and applying the measures for the monitored companies;
- ensuring the application of the EIOPA requirements regarding the supervision process, of the provisions regarding the implementation of the Solvency II regime by the supervisory authorities in the Member States.

An important part of the project was represented by **the development of the risk indicators** which should facilitate the unfolding of the supervision activity, FSA managing to implement the automatic calculation of the indicators.

In November 2019, the EIOPA representatives carried out a monitoring mission for the progress achieved in implementing the supervision Handbook and appreciated especially the progress registered for the automatic defining and implementation of the risk indicators.

The analysis of the most important risks and vulnerabilities of the insurance and/or reinsurance of the companies is carried out according to the activities of the companies (insurance/reinsurance), practiced insurance class, volume of activity and retaining rate of the underwritten risks, namely the value of the gross written premiums and net written premiums, by type of activity, activity performance and exposure on certain activity segments, corroborated with the impact which it might have on the insurance market, value of the assets owned in connection with the technical obligations, indicators regarding the solvency and liquidity of the company.

The classification of the companies according to the risks and their likely impact on the insurance

market is carried out thus:

- by impact categories: in category 1 are included companies presenting the lowest impact level, and in category 4 the companies presenting the highest impact level;
- by risk categories: in category 1 are included companies having the highest capacity to withstand the risks, and in category 4 the companies with the lowest risk reaction capacity.

For the impact evaluation, it is considered the market share held in the insurance market, thus:

1. For life insurance activity, the market share is determined by cumulating the values of the technical gross provisions related to the life insurance activities, including the technical provisions for the unit-linked insurances and the unit-linked insurances of the companies;
2. For non-life insurance activity, the market share is determined by cumulating the gross written premiums related to the non-life insurance activities of the insurance and/or reinsurance companies;
3. Composite companies are included in the highest impact category of the two activities carried out, life insurance and non-life insurance;
4. Companies which underwrite civil liability motor insurance are classified, in addition, according to the market share owned for this insurance type;
5. When granting the score, it is considered, separately or combined, the value variation of the indicators compared to prior period and/or their values at the reference date.

According to the evaluation results, the insurance-reinsurance companies are classified in 4 supervision categories, thus:

CATEGORY 1 - BASIC SUPERVISION;

CATEGORY 2 - STANDARD SUPERVISION;

CATEGORY 3 - INCREASED SUPERVISION;

CATEGORY 4 - INTENSE SUPERVISION.

Based on the last evaluation carried out for 2019, the company classification according to the 4 supervision categories presents thus:

Supervision category		Number of companies
Category 1	basic supervision	3
Category 2	standard supervision	13
Category 3	increased supervision	5
Category 4	increased supervision	6

Carrying out the activities established in the supervision plan of the insurance-reinsurance companies

For the purpose of carrying out the supervision activities it is drafted a supervision plan which considers, in addition to the classification mentioned before and supervision priorities, the available resources and other relevant information.

The first stage in the process supervision is represented by the quarterly evaluation and the classification of the companies according to their risks and the impact on the insurance market. The evaluation and classification of the companies are objective and are based on the data from the periodical reports submitted by them, the results of the market analysis and the stress tests carried out by FSA or by EIOPA, if relevant for the Romanian market.

When drafting the supervision plan of the Romanian insurance companies in 2019, FSA considered

the minimum requirements regarding the supervision measures foreseen in the operational procedure, as well as the supervision category in which the insurance companies are included, but also the supervision activities carried out in the prior years, both off-site, as well as on-site. Planning the supervision measures was carried out based on a calendar specific for each insurance company, considering the results of the quarterly evaluations, the periodical or ad-hoc on-site inspection measures, as well as the additional information provided by the companies. The measures included in the 2019 supervision plan were based on the continuity principle of the supervision activities carried out in the prior years, but also on the proportionality principle, being established so as to ensure the continuity of the measures carried out in 2017 and 2018. The supervision measures established in the plan were carried out according to the calendar permanently considering the results of their quarterly risk evaluations, the periodical or ad-hoc on-site inspection measures, as well as the additional information provided by the companies, both periodical (reports), as well as ad-hoc.

In the ongoing off-site supervision, in addition to the quantitative and qualitative analysis of all the reports according to the legislation in force, it was carried out the analysis of the policies upon which it was established the governance system of the insurance companies, as well as the analysis of their strategies. Furthermore, it was carried out periodic interviews with the company managers and with the ones holding key functions in their framework, aiming at continuously fulfilling the requirements related to them, as well as the functionality at the management level of the insurance company on the whole. During the meetings with the ones holding key/critical functions, according to their activities actually carried out, their complexity, as well as the specificity of the insurance company employing the said person, FSA was focused on knowing the activity carried out, the appropriate departments size in the frame of the companies, their interdependence and independence, understanding the legislative aspects with impact on the activity carried out within the insurance companies.

Considering certain acknowledged deficiencies in the insurers' activity, following the off-site supervision activities carried out in 2019, FSA decided:

- To sanction with written warning two insurance companies, furthermore, being established certain remedial measures to one of these companies;
- To sanction with written warning 2 managers of an insurance company;
- To sanction with a fine amounting to Lei 10,000 a manager of an insurance company.

Similar to 2018, in the off-site framework activities carried out in 2019, a special importance had also the participation to the meetings of the supervision colleges for the branches of the groups in the EU Member States, during which it was provided the quantitative and qualitative risk analysis to the coordinators of the groups for their branches in the Romanian territory.

Furthermore, a special activity specific of the new surveillance regime was carried out in connection with the **Internal models** applied by certain insurance companies, reason why it was evaluated the prior applications of two companies belonging to some groups, by changing the internal model partially used in the calculation of the capital requirement from the point of view of the comprehensiveness and of the conformity with the legal requirements and the notification of the group monitor regarding the identified deficiencies.

During 2019, it was continued **the activities carried out in 2018 to ensure the calculation of the MTPL reference tariff**. According to the provisions of the art.18 of the *Law no. 132/2017 regarding the mandatory vehicle civil liability insurance for damages produced to third parties in vehicle and tram accidents*, the reference tariff is calculated quarterly by a company with acknowledged expertise in the field, contracted by the FSA, according to the formula foreseen in article 2 point 24 and is published by the FSA.



Thus, on June 25th 2019 it was concluded between FSA and Ernst & Young Assurance Services SRL the subsequent actuarial service contract (a third one) whose object is constituted by Ernst & Young Assurance Services SRL providing in favour of the FSA actuarial calculation services for a reference tariff for the RCA insurance.



On December 20th 2019 it was concluded between FSA and Ernst & Young Assurance Services SRL the subsequent actuarial service contract (a fourth one) whose object is constituted by Ernst & Young Assurance Services SRL providing in favour of the FSA actuarial calculation services for a reference tariff for the MTPL insurance.

The third actuarial report regarding the calculation of the MTPL reference tariff, drafted by Ernst & Young Assurance Services SRL (based on information regarding the MTPL insurance policies who had at least one day of availability during January 1st 2014 - December 31st 2018) was notified to FSA on September 5th 2019, and FSA published a summary of the information included in this report.

Off-site supervision of the insurance intermediaries

An important action for the insurance intermediaries was to carry out the project *The consolidation of the supervision function for the conduct of the insurance insurers and intermediaries*, through which FSA benefited of expertise from EIOPA. By applying the modern supervision instruments and methods proposed in the project it was insured a conceptual framework for the risk identification and monitoring, as well as a reporting system containing data periodically collected and analyzed by FSA. Furthermore, it was ensured also an evaluation framework of the risks for their monitoring at the insurance market level based on which to establish both the conduct risks prioritization process, as well as the adequate action plan.

Improving the supervision system by developing supervision instruments based on the conduct risk evaluation

In 2019, it was initiated the Project „*Enhancing the supervision function of the Romanian insurance market in respect of market conduct*“, financed by the European Commission, project which supposes technical assistance granted by EIOPA in the field of the insurance distributor conduct monitoring, for protecting the insurance product beneficiaries and the stability of the insurance market. The project has as purpose the development of the supervision instruments based on the risk evaluation related to the insurance distributors' conduct in the client relation, by:

- Creating a conceptual framework for the identification and monitoring the conduct risks during the life cycle of the insurance products;
- Implementing a reporting system regarding the insurance distribution activity;

- Identifying some evaluation instruments of the conduct risks at the market level and at the insurance company level;
- Implementing a system of conduct indicators;
- Implementing a process for establishing the conduct supervision priorities.

Establishing some classification criteria for the intermediaries by risk classes

Following the unfolding of the off-site supervision process based on reports submitted by the brokerage companies, it was carried out an analysis of the risks which might impact the distribution activity, after which it was identified also the classification criteria for the brokerage companies by risk class, as well as their business models.

Given that the insurance market is dominated by mandatory MTPL insurances, the operational risk was considered as being the most spread, considering especially the IT applications, which serve the brokerage companies. Combined thus, the exploitation/management risk for the IT applications is established by the brokerage company's size, from the point of view of the human resources, but also the volume of intermediated premiums. In addition, there is a series of identified risks which can be considered part of the operational risk and namely: fraud risk, credit (financial) risk, legal risk, market risk and reputational risk.

When it entered into force the *Law no. 236/2018 regarding the insurance distribution*, attention was focused towards the insurance client/purchaser. Thus, the role of the brokerage companies significantly increases, both given the requirement to evaluate the requests and needs of the client, but also by presenting a customized offer which can measure up to these. Customizing the offers practically imposes for the intermediary to have a certain professional training standard so that it can offer the clients or the potential clients the personalized solution which helps them take an adequate decision. This service has a significant risk because the decision taken in such conditions can lead to a material loss on the client's side. This is practically the professional risk, covered by the civil liability policies of the brokerage companies.

Consequently, several criteria were identified allowing for the classification of the brokerage companies by risk class, and namely: intermediated premium volume, number of employees and collaborators, number of intermediated insurance classes and the complexity of the intermediated insurance products.

Drafting some risk based supervision models

During the last 3 years, through the periodical inspection actions, FSA obtained the outlook regarding the vision and functioning manner of the controlled brokerage companies. This, together with the data notified through reports, as well as the analysis of the main risks identified in brokerage activity, have led to the identification of some business models of the brokerage companies, such as: belonging to some international groups - corporate and not only, captive (of a business), family network and business.

Each of these models brings forth the specific risks mentioned, but in different proportions. In addition, for each model, it is analyzed also the risk deriving from the conflict of interests, which can determine the rise of the professional risk.

Following the acknowledgment from the monitoring/supervision activity of the brokerage companies, FSA took the following measures:

- when it came into force the *Law no. 236/2018 regarding insurance distribution*, out of the 34 brokerage companies registered with suspended activity or temporary prohibited, for 32 of them the Authority decided to sanction with the withdrawal of the license to practice for failing to comply with the legal provisions regarding taking up again the activity, according

to the legal norms in force and for 2 of them it was decided the deletion from the Insurance and/or Reinsurance Broker Registry/Main Intermediary Registry;

- sanctioning with fine the executive manager of the brokerage company amounting to Lei 5,000 ;
- sanctioning with written warning 16 brokerage companies.

For 2 brokerage companies, with suspended activity, it was approved the withdrawing of the license to practice, upon request.

Monitoring the implementation of Law no. 236/2018 regarding insurance distribution and of the secondary legislation, issued for its application

§ Verifying the implementation by the insurance distributors of a legal framework regarding the insurance distribution

Law no. 236/2018 regarding insurance distribution together with the secondary legislation issued by FSA ensures the transposing in the national legislation of the provisions from the *Directive (UE) 2016/97 regarding insurance distribution - IDD*.

In 2019, FSA organized meetings with the market representatives (National Association of the Insurance Intermediation and Consulting Companies - UNSICAR, Romanian Patronage of the Insurance-Reinsurance Brokers - PRBAR, Insurance Consulting and Partnership Centre - CCPA), having as purpose the analysis of the manner in which it will be implemented the provisions of the new legislation. Furthermore, another objective was related to the existence of the same procedures at the level of the entire market, of course adapted for each entity according to the business model and its dimension. The result of the ongoing communication and debates organized by FSA was observed in the inspection activities carried out in the second half of 2019. Thus, all brokerage companies which were controlled, according to the annual inspection plan, had a consistent manner to transpose in practice the legislative amendments, reaching various stages of implementation.

§ Verifying the compliance of the intermediaries for the information and consultancy requirements foreseen by the legislation, including the additional requirements regarding the insurance-based investment products

Verifying the compliance of the information and consultancy requirements of the clients/potential clients was carried out exclusively through the periodical inspections actions. Thus, it was acknowledged the existence of a harmonized manner for presenting this information, largely by electronic communication with them, using dedicated IT applications. The advantage offered by standard templates via computer applications is given by the fact that each client of the brokerage company receives, without exception, the full documentation (for example: note on the personal data processing, note on the brokerage company, brokerage mandate, the form regarding the selection of the communication channel).

Given the specificity of the Romanian market, as well as the different manner of approaching the brokerage company market, it was observed a inconsistent implementation of the analysis form for the demand and need test (DNT). One of the causes was the consideration to have it electronically generated. On the other hand, in the case of the mandatory MTPL insurances, this request can be implemented by using a simplified DNT for the clients wishing to sign only MTPL policies.

Generally, the brokerage companies have proceeded to implement the requirements of the new legislative framework. An evaluation of the way these changes have influenced the clients or potential clients was carried out by the inspection teams. Thus, through survey, various clients of the controlled brokerage companies were contacted and asked if they had fulfilled their obligations regarding the information, consultancy, offer presentation manner etc., the feedback thus obtained being a very good one.

Changing the legislative framework by entering into force of the *Law no. 236/2018 regarding insurance distribution* and its application norms, also brought several changes in the segment of the main intermediary's reports.

In this regard, FSA held an ongoing dialog with the brokerage companies, which resulted in a simple and coherent process of full and correct quarterly/semi-annual notification of the data in the FSA IT applications, which determined a conformity degree with the reporting legal requirements of 98-99 %, thus being fulfilled one of the FSA objectives.

§ Verifying the compliance with the legal requirements regarding the enrolment in the FSA registries of the mandatory information

Together with the appliance of the new legislation and of the new requirements regarding the professional training of the individuals working in the insurance distribution domain, via the *Norm no. 19/2018 regarding insurance distribution*, FSA created the Secondary Intermediary Registry (RIS).

The project was launched at the beginning of 2019, and the ad hoc testing in August. Implementing the Secondary Intermediary Registry ensures:

- create a common FSA-IFS database, such that each intermediary can be registered only if certified;
- possibility to include all the secondary intermediaries;
- data transparency through the interrogational public interface;
- ease to use.

§ Verifying the compliance of the legal requirements regarding the professional training

In order to ensure a high and competent level of professionalism and among the insurance intermediaries, for the benefit of the clients, compliance with the requirements regarding the professional training by the brokerage companies (the main intermediaries) represents one of the objectives of the periodical inspection measures carried out during the last years.

In addition to the periodic inspections carried out, in 2019 it was also performed an action for verifying the managers of the brokerage companies from the point of view of fulfilling the legal requirements regarding the professional training.



The action was finalized in the first quarter 2020, being sanctioned with fine 8 brokerage companies, for 4 of these being decided also an action plan for ensuring the remediation of the acknowledged deficiencies. The overall amount of the fines is Lei 53,000.

§ Ensuring an adequate conduct for the insurance distributors in the client relation during the entire life cycle of the insurance products

For the purpose of monitoring the insurance products distributed on the market, during 2019, FSA carried out the following theme supervision measures and **mystery shopping**:

- a) Analysis of the insurance products for the medical malpractice existent on the Romanian market – it was assessed the evolution of the medical malpractice products on the Romanian market, the companies having in their portfolio these products, coverage degree, in order to establish if the medical/pharmaceutical personnel and the sanitary/pharmaceutical units can contract civil liability insurance for the medical malpractice and if the patients can benefit from this type of insurance, as well as the possible aspects which might infringe on the rights and interests of the insured or beneficiaries of these products;
- b) The analysis of the insurance products regarding the tenement insurance - it was monitored the evolution of this product on the Romanian market, as well as the coverage degree of these products;

- c) The analysis of the supervision policies and governance of the insurance products from the perspective of complying with the applicable legislation;
- d) Analysis of the fragmentation of the value chain and the new business insurance models - carried out at the request of EIOPA, as part of the program *Fragmentation and New Business Models*. The purpose of these measures was to collect information about the most used cooperation models for the insurance company and third parties (InsurTech, BigTech companies and insurance platforms/ecosystems), as well as about the risks and benefits related to these business models;
- e) Theme analysis regarding the insurance product distribution through the bancassurance distribution channel - initiated following the identification of some possible deficiencies in applying by the insurance companies of the provisions of the *Delegated regulation 2017/2358 regarding the supervision and governance requirements of the products*, regarding the insurance products by bancassurance type;
- f) Theme analysis regarding the travel insurance products - initiated following the notification forwarded by the Romanian Ombudsman after identifying some possible breaches of the dual citizenship citizens' rights. The analysis was extended and it was verified the distribution manner of the travel insurance products both for the dual citizenship citizens as well as individuals who have their residence/domicile in another state;
- g) Theme supervision action for the purpose of verifying the compliance with the legal provisions regarding offering the civil liability insurance product for car owners on the brokerage company website;
- h) Theme supervision action to assess the way it can be purchased the travel insurance on digital channels.

FSA organized periodical meetings with the representatives of the monitored entities, during which analyzed aspects regarding their conduct from the perspective of the consumers rights protection, aspects identified in the complaints registered with the FSA, the internal policies and procedures, as well as the legislation in force, insurance products etc.

On-site supervision and sanctions applied to the insurances and reinsurances sector

In order to preserve an ordinate and efficient functioning of the insurance and reinsurance market, FSA strengthened the inspection function, proceeding to sanction the entities, when necessary, proportionally and coercively.

Carrying out periodic annual inspection actions, according to the annual integrated inspection plan and the ad hoc inspection actions, as well as sanctioning after monitoring the Romanian insurance market

In total, in 2019, 15 inspection actions were finalized at the insurance-reinsurance companies, of which 14 periodical inspections and ad-hoc inspection action. Following these inspections, the following sanctions were applied:

- 
- sanctioning with fine 3 insurance companies totaling Lei 155,000;
 - sanctioning with written warning 7 insurance companies;
 - sanctioning with written warning individuals having an actuarial position – within the insurance companies.

Furthermore, considering the proportionality principle, in the case of some insurance companies recommendations were drafted aimed at leading to the improvement of the internal processes and procedures and in other cases of insurance companies it was decided inspection plans with the purpose of strengthening the governance system and the internal control mechanisms, as well as ensuring the remediation of the acknowledged deficiencies which led to the application of the sanctioning measures.

The supervision and inspection of the main and secondary insurance intermediaries, of the activity carried out by them in relation with the insurance product consumers and with the insurance and/or reinsurance companies, supervision and inspection of the insurance and/or reinsurance companies and supervision and inspection of the activity carried out by the Romanian Motor Vehicle Insurers' Bureau and by the Policyholders Guarantee Fund represent actions of the FSA to ensure the achievement of the institution's objectives.

In 2019, 22 inspections were carried out at the brokerage companies, of which 12 periodical inspections and 9 ad hoc inspections. Following these inspections, the following sanctions were applied:

- sanctioning with fine of 2 brokerage companies totaling Lei 15,000 and an action plan for rectifying the acknowledged deficiencies;
- sanctioning with written warning 2 brokerage companies.

For a brokerage company a warning was issued; for 5 brokerage companies it was approved, upon request, the withdrawing of the license to practice and for 2 brokerage companies it was approved, upon request, to suspend the activity.

On-site and off-site inspection measures carried out for the insurance companies conduct

Following the analysis of the growth tendency for the number of complaints registered against insurance companies, as well as of the indicators regarding the average period for solving the damage files, **notifications were sent to two insurance companies**, regarding the requirement to comply with the related legal regulations, including those regarding the organization and monitoring processes within the companies, ensuring an efficient system for solving the claims, so as to ensure the protection of the clients' rights, through the efficient management of the risks which might appear in their relation.

Furthermore, in the off-site supervision activity it was acknowledged breaches of the legislation regarding the civil liability motor insurance (MTPL), following which two insurance companies were sanctioned with a fine amounting to Lei 50,000 each.

Following the identification of some potential incorrect practices in handling the MTPL claims, both from mass-media sources, as well as following the notifications received from some representatives/proxies of the MTPL contracts, it was carried out an ad hoc inspection at the insurance company. The inspection had as objective to verify the compliance of the legal framework's provisions related to the instrumentation and finalizing the MTPL claims files, the evaluation of the internal processes and procedures of the company from the perspective of the compliance with the rights and interests of the insurance products' clients.

The inspection was finalized in 2020, with the sanctioning of the company with a fine amounting to Lei 100,000 and deciding for the company an action plan for rectifying the acknowledged deficiencies which led to the application of sanctions.



FINANCIAL
SUPERVISORY
AUTHORITY

ANNUAL REPORT

2019



Entities in the financial instrument and investment sector monitored by the FSA

Investment firms (IFs)/credit institutions carrying out investment services and activities and market institutions:

1 market operator (Bucharest Stock Exchange) 3 branches of the credit institutions in Member States

20 IF

25 credit institutions

24 investment consultants (21 individuals, of which 1 currently withdrawing and 3 legal entities)

1 central depository

7 branches of the investment firms from the Member States

Collective placement schemes and investment management companies/alternative investment fund managers:

122 collective placement schemes (of which 5 financial investment companies and Fondul Proprietatea), 4 depositories and 11 distributors

5 SIFs (SIF 1, SIF 2, SIF 3, SIF 4 and SIF 5)

18 investment management companies (IMC), of which 12 alternative investment fund managers (AIFM)

Fondul Proprietatea

16 investment management companies from other Member States (SAIM)	1 branch of the investment management company from other Member States (SSAM)	44 alternative investment fund managers from other Member States carrying out the activity in Romania directly (AFIASMD)	1 branch of the alternative investment fund from other Member States carrying out the activity in Romania directly (AFIASMS)
167 credit institutions from other Member States (INCM)	3 branches of the credit institution from other Member States (SICM)	1753 Investment companies from other Member States carrying out the activity in Romania directly (FISMD)	7 Financial investment companies from other Member States (SIFM)

Investors Compensation Fund (ICF)

Supervision of the financial instrument and investment sector

FSA ensures the supervision and the control of the prudential and conduct rules for the entities authorised in the equity market, aims at and decides actions for complying with the legal provisions for the regulated entities.

During 2019, FSA continued the efforts for improving the quality, efficiency and coherence of the supervision activity by implementing pro-active measures and by the gradual shifting to a risk-based supervision.

Off-site supervision of the financial instrument and investment sector

In order to ensure a healthy functioning of the monitored markets, FSA changed the approach related to the supervision function, applying a prospective approach according to the risks. At the same time, FSA proposed to improve the supervision function through a consistent process for adopting the best practices in the field, including approaching a conduct-based supervision. 2019 - 2023 represents a development and consolidation period for the supervision function by harmonising the two types of supervision, risk-based supervision, but also the one based on conduct, in order to have a healthy functioning of the monitored markets.

Transition towards risk-based supervision of conduct rules in the off-site supervision activity

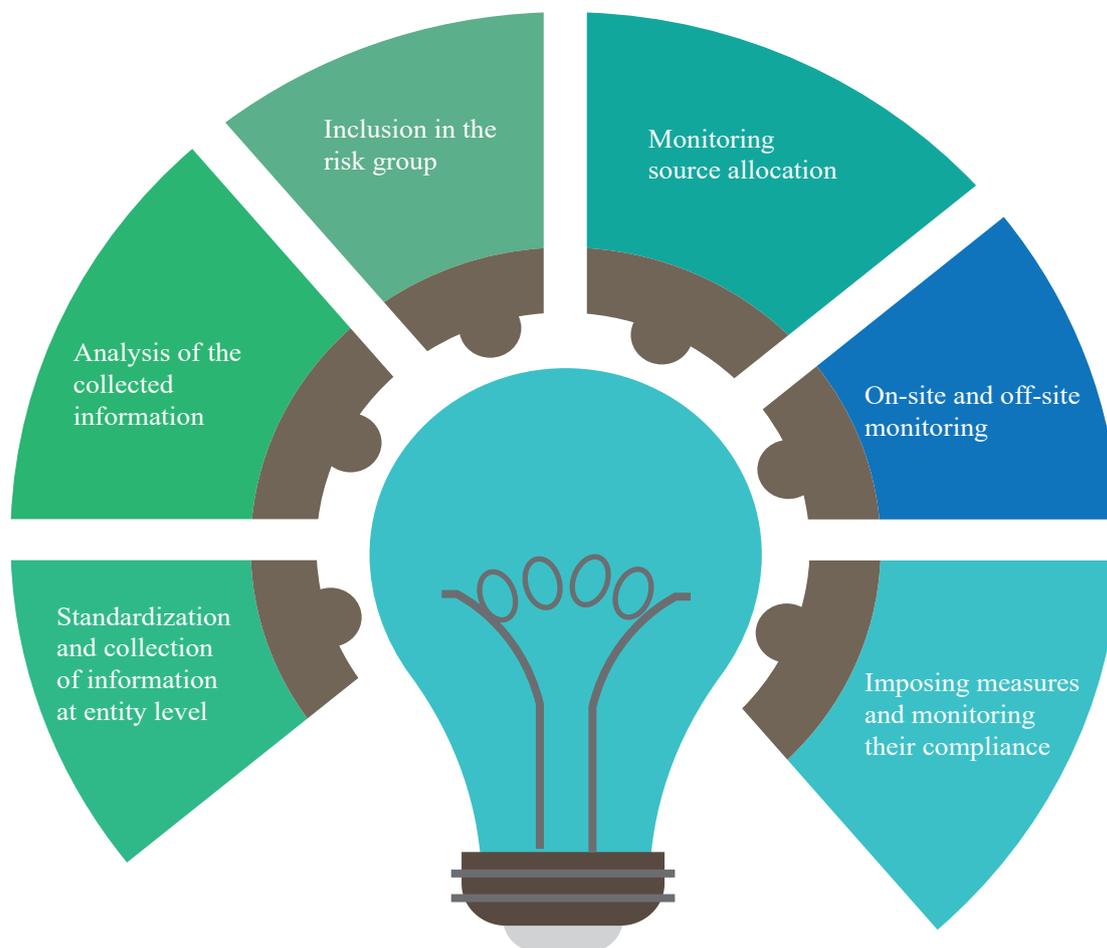
FSA ensures the supervision of the conduct rules compliance by the investment firms, market institutions and investment management companies, based on the identification, prevention and management of the risks to which these entities are exposed to.

In order to pass to the risk-based supervision, it was monitored a series of indicators, which have the role of signalling the potential threats for the financial stability of the monitored entities and which are the basis for the qualitative analysis of the company's governance, the internal control mechanisms and of the risk management, the results contributing to the risk factor mitigation.

The risk-based supervision methodology, from the conduct perspective, involves going through the following stages:

<p>Risk identification</p> <p>Client relation Conflict of interest Organization and functioning</p>	<p>Risk evaluation at the entity level</p> <p>Quantitative analysis of the reports received at FSA</p>	<p>Determining the impact and probability of risk materialization</p> <p>Determining the importance of the entity upon the investor protection, disciplined market, and financial stability</p>	<p>Scoring</p> <p>Scoring/risk scoring / inclusion in the risk groups</p>
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Implementing the RBS implies the organisation and formalisation of the IMC/AIFM and IF monitoring activity by using standardised documents and processes, beginning with the information collection stage from the market entities. In 2019, the efforts of the FSA were aimed towards the gradual implementation of the monitoring methodology based on risks, both at the organisational level, as well as the technical perspective.



Investment firms

The decreasing tendency in the number of the investment firms , registered in the previous years, was maintained also in 2019, thus, at the end of the year, their number was of 20 companies, during the year, a company sending the request to have the IF authorization licence withdrawn.

The off-site supervision of the legal requirements in force regarding the conduct rules applicable for investment firms was based on the situations and reports regulated by the legal provisions in force and submitted to FSA, the complaints received within the FSA and the information received within the thematic exercises carried out by the Authority or requested expressly.

During 2019, **warnings were sent to the investment firms**, having as object the non-complying conduct, materialised by the incomplete information sent to the FSA, the incorrect drafting of the regulatory reports, delayed sending of the reports to the FSA and the internal control department representative failing to comply with the tasks and responsibilities, as foreseen by the internal and legal provisions and procedures.

Thus, the investment firms were monitored considering the nature, complexity and activity volume carried out by them. The main risk indicators used in the monitoring activity consisted of:

- value and custody safekeeping of the clients' assets;

- evaluation of the compliance activity;
- managing the IF conflict of interest;
- information provided to the clients;
- managing and executing the clients' orders;
- number and types of clients.

Risk indicators	Risk level	Risk sources
Risk of failing to comply with the legal requirements in force	AVERAGE	<ul style="list-style-type: none"> • internal procedures not complying with the related legal framework; • inadequate internal control activity /audit/risk management; • contradicting information identified in the documents sent to the FSA; • insufficient training of the company's personnel and failure to adequately apply the existing policies and procedures; • deficiencies identified in the reports of the responsible person with the conformity role/internal or external auditor.
Conflict of interests	AVERAGE	<ul style="list-style-type: none"> • wrongful monitoring of the conflicts of interest; • inadequate informing of the investors regarding the conflicts of interest.
Safe keeping of the clients' assets	HIGH	<ul style="list-style-type: none"> • the existence of complaints sent to the FSA by the clients regarding the provision of insufficient or fraudulent information sent to clients; • incomplete presentation of the execution taxes/fees; • lack/erroneous archiving of the correspondence recordings with the investors; • lack of informing/inadequate informing of the clients whose accounts are managed by the IF in case of diminishing the value of the portfolio administered with thresholds imposed by the legislation in force.
Information provided to the investors	AVERAGE	<ul style="list-style-type: none"> • inadequate execution of the clients' orders, without complying with their instructions or for a better price; • payments received from third parties related to the order execution; • adopting adequate measures in order to obtain the best results regarding the client order execution; • equal treatment regarding the order execution; • client adequate classification; • adequate implementation of the policies for executing the orders.
Client order management and execution	HIGH	<ul style="list-style-type: none"> • inadequate execution of the clients' orders, without complying with their instructions or for a better price; • payments received from third parties related to the order execution; • adopting adequate measures in order to obtain the best results regarding the client order execution; • equal treatment regarding the order execution; • client adequate classification; • adequate implementation of the policies for executing the orders.

Credit institutions authorised by National Bank of Romania, providing investment services and activities with other financial instruments than the ones foreseen in art. 2 alignment (3) of the Law no. 126/2018 regarding the financial instrument markets

Following the analysis of the information received from the credit institutions, FSA requested from them clarifications regarding the activity carried out by the individual responsible with the compliance, namely the manner of solving some notifications received from the clients.

Institutions market (BSE and the Central Depository)

Following the analysis of the information received from the market institutions, FSA submitted additional requests regarding the activity carried out by the compliance responsible, foreseen by the legal and internal provisions procedures.

Furthermore, it was monitored the status of the re-authorization process of the Central Depository, according to the EU Regulation no. 909/2014 by adapting the (CE) Regulation no. 2090/2002 laying down detailed rules for applying the Council Regulation (EEC) as regards the physical checks carried out when agricultural products qualifying for refunds are exported, after the integration in the European Union of the Czech Republic, Estonia, Cyprus, Latvia, Lithuania, Hungary, Malta, Poland, Slovenia and Slovakia. This process involved the revision of the conduct rules and procedures, fact which led to the amendment of the reporting requirements.

Branches/delegated agents of the investment companies from Member States registered in the FSA Registry

During 2019, following the monitoring activity carried out of the branches/delegated agents, notifications were transmitted to the competent authorities regarding:

- inadequate promotion activity carried out on the Romanian territory by an investment company branch;
- notifications received in several branches, regarding the activity carried out by the investment firms on behalf of the clients;
- advertising activity carried out on the territory of the other Member States by a delegated agent established in the Romanian territory and notifications received by him/her from the investors.

Investment consultants certified by FSA

Following the analysis of the information received from the investment consultants, warnings were submitted having as object the failure to comply with the legal reporting deadlines of various situations imposed by the legal provisions. FSA applied warnings to three investment consultants, legal entities, which have failed to comply with the provisions regarding the reports notifications according with the capital market legislation in force.

IMC/AIFM in the CIS/AIF/IC management activity

Following the analysis of the information received from IMC/AIFM, warnings were sent having as object:

- the incomplete notification of the information requested expressly by FSA;
- inadequate fulfilment of the tasks and responsibilities by the internal control department representative, as foreseen by the legal provisions and internal procedures;
- updating the information available on the IMC/AIFM websites regarding the inclusion in the non-UCITS category, remuneration policy, structure of the consultative committees and identity of the company's representatives, levying some disproportionate management fees related to the provided services (event which might generate conflict of interests) etc.

The measures decided by the IMC/AIFM for the rectification of the acknowledged deficiencies and sent by FSA were mainly:

- redoing their own investigation plans by including some specific activities;
- updating/adding the documents used in the discretionary client relation, according to the legislation applicable in the field;
- raising the monitoring frequency at the internal IMC/AIFM level;
- avoiding situations generating conflicts of interest.

The summary of the most important risks identified following the supervision activity carried out in 2019 presents itself thus:

Risk indicators	Risk level	Risk sources
Compliance	MINIMUM	<ul style="list-style-type: none"> • presentation and correlation deviances for the information in the personal transaction registry; • the presented notifications, communications or reports are not drafted complying with the uniform feature (some documents include the name and position of the CEOs/ compliance officer and/or their signature, and others do not); • lack of internal harmonisation procedures with the related legal framework/other internal norms of the entities/lack of periodical revision of some internal procedures; • inadequate internal control processes, audit and management; • contradicting information identified in the annual financial statements/2018 annual report, drafted according to the provisions of the <i>Regulation no. 5/2018 regarding the issuers of financial instruments and market operations</i>.
Conflict of interests	AVERAGE	<ul style="list-style-type: none"> • wrong monitoring of the possible conflicts of interest; • failure to update information, wrong references, errors or omissions in the Conflict of interest registry.
Investor protection	HIGH	<ul style="list-style-type: none"> • complexity of the instruments in the CIS/IC portfolios and/or using the levier/commission level effect; • carrying out the investment in a reduced number of by issuers, without insuring the risk dispersion; • significant ratio of the retail investors; • distribution channels.

On-site supervision and sanctions applied in the financial instruments and investment sector

In order to accomplish the inspection specific objectives, during 2019, periodic and ad hoc inspections were carried out for the regulated and authorised entities. The inspection measures of the 2019 inspection plan aimed also at strategic entities for the stock market (the market operator, the Central Depository), as well as the significant AIFM (the alternative investment fund managers) and those with complex activity (SIFs).

Complementary to the basic activity (carrying out inspections at the entities' headquarters), another important activity of the inspection structure refers to the monitoring of the operational risks generated by the IT systems used by authorised entities by analysing the reports/notifications sent by the entities based on the *FSA Norm no. 4/2018 regarding the operational risk management generated by IT systems used by the authorised/endorsed/registered entities, regulated and/or monitored by the Financial Supervisory Authority*, with the later amendments and additions.

Ensuring the protection of the operators and of the investors against the unfair, abusive and fraudulent practices

Within the inspection activity, it was mainly monitored the observance of the rights and interests of the investors, by checking the conduct and prudential requirements related to the monitored entities, regarding the common and specific themes for several categories of entities.

The main common inspection themes

- verifying the consistency of the application by the supervised entities the European provisions related to IF/IMC/AIFM which were implemented recently in the national legislation;
- corporate governance;
- financial stability of the entity;
- evaluation and adequacy of the compliance/risk management/audit/IT positions;
- account segregation and the safe keeping of the clients/investors' assets;
- policies for preventing and combating money laundering and for managing the international sanctions.

Regarding the verifications which have aimed at the amendments determined by the new legislation in force, with the purpose of leading the inspected entities towards a correct and harmonized understanding, the feedback received was a positive one, being appreciated this type of intervention by the Authority. In certain inspected entities, in 2019, there were identified examples of good practices, which will be capitalised within the supervision and inspection activities.

The main specific inspection themes

Investment management companies/Financial investment companies/Alternative investment funds managers (including collective/individual portfolios managed by them)

- portfolio management (collective and individual) related to the limits specified by the legislation or by the fund documents;
- calculation and evaluation of the assets in the managed portfolios;
- risk profiles related to UCITS/AIF and evaluation of the crisis simulations/stress tests (for example, liquidity risk management existent at the level of the managed portfolios).

Intermediaries (IF and credit institutions)

- administration and execution of the clients' orders for their best interest;
- transacting on their own, internet transacting;
- conflicts of interest - identification, mitigation, management.

Investment fund asset depositories

- certificating and monitoring the asset funds;
- informing FSA regarding any abuse of the IMC/AIFM/exceeding the investment limits.

Market institutions - BSE and the Central Depository

- correct functioning of the markets/managed systems;
- requesting the reimbursement processes;
- registry activity.

Controls
carried out in
2019 by types of
entities

- ▶ 7 at Intermediaries
- ▶ 6 at Investment management companies
- ▶ 5 at Financial investment companies
- ▶ 3 at Depositories companies
- ▶ 1 at Market operator
- ▶ 1 at Central Depository

Improving the stability, competition and proper functioning of the financial instruments market

During 2019 it was acknowledged a **significant decrease of the cases of breaching the regulations by the inspected entities**, which demonstrates that the approach the last years of the inspection activity, based on risk and the identification of the most adequate correction measures had the expected results.

Important steps were carried out towards the intensification of the market dialogue, by organising working meetings at the FSA headquarters, both at the initiative of the inspection teams, as well as that of the inspected entities, in which have been clarified a series of situations and have been created the premises for correcting some deviant situations and/or identifying some solutions for mitigating their risks.

Promoting the trust in the markets and in the investments in the financial instruments by strengthening the institutional capacity and the consolidation of the Authority

After finalising the project "*The consolidation of the supervision function of the Romanian capital market*", with the assistance of the World Bank, in order to achieve this objective, in 2019 it was carried out a pilot-program regarding the **on-site supervision activity - according to the risk-based supervision methodology (supervision based on RBS risks)**. This pilot stage, which involves the gradual implementation of the RBS principles and methodology in the inspection

activity, aimed before at the change of certain internal processes and flows. By evaluating the risk profile of the entity, corroborated with the business model, in 2019, it was carried out a mapping of their risks which induces, but also to which the inspected entity is exposed, identifying the sensible aspects of the company's activity.

From the statistical data, namely the action plans by measures and warning letters issued in 2019, reported to the level registered in 2018, it is confirmed the improvement of the compliance degree of the entities, as a result of the implementation of the risk-based inspections.

Carrying out the annual periodical inspections, according to the annual integrated inspection plan, of ad hoc inspection actions, as well as granting sanctions following the monitorisation of the Romanian capital market

When establishing the measures resulting from the inspection activity it was aimed at the legal, rigorous/ fundamental and proportional evaluation of the failure to comply and the risks, considering the probability, impact, possible damages, real and material circumstances of committing the deed and the behaviour of the perpetrator, for the adequate individualisation.

Following the inspection activity, the following measures were applied:

Investment firms

- sanctioning with warning 3 investment firms;
- sanctioning with fine totalling Lei 3,000 two individuals within the investment firms;
- sanctioning with warning 19 individuals within the investment firms;
- warning 7 investment firms;
- warning 8 individuals within the investment firms;
- deciding 5 action plans accruing to the investment firms.

Investment management companies/Alternative investment fund managers

- sanctioning with warning an investment management company;
- sanctioning 4 individuals within investment management companies with fine totalling Lei 7,000;
- sanctioning with fine amounting to Lei 2,000 an individual – manager of an alternative investment fund;
- sanctioning with warning 5 individuals within an investment management company;
- sanctioning with warning an individual within AIFM;
- warning two investment management companies;
- warning 4 fund managers of alternative investment companies;
- warning 5 individuals within investment management companies;
- warning 20 individuals, managers of the alternative investment funds;
- deciding 3 action plans accruing to investment management companies;
- deciding 5 action plans accruing to the managers of the alternative investment funds.

Market institutions

- warning 3 individuals from the capital market infrastructure;
- deciding two action plans accruing to the capital market infrastructure institutions.

Depositories

- warning a depository;
- warning two individuals within the depositories;
- deciding 3 action plans accruing to the depositories.

Following the monitoring activity, the following measures were applied:

Investment firms

- sanctioning with warning two investment firms;
- sanctioning with fine amounting to Lei 3,856.46 an investment firm;
- suspending, for 90 days, an investment firm.

Moreover, following a notification submitted by a client of an investment firm, following the verifications carried out in the off-site activity regarding this company, FSA decided:

- sanctioning with warning 3 individuals from the company (as general director, ASIF, namely the person responsible with the compliance, at the time the deeds were committed);
- sanctioning with fine amounting to Lei 5,000 a company manager (as President of the Board of Directors, at the time the deeds were committed);
- deciding an action plan accruing to the IF.

Investment management companies/Alternative investment fund managers

- sanctioning twice with warning an investment management company;
- sanctioning with fine amounting to Lei 10,000 an investment management company;
- sanctioning with fine amounting to Lei 10,000 an investment management company's manager;
- sanctioning with fine, amounting to Lei 5,000 an investment management company's manager.

Investment consultants

During 2019, 3 investment consultants were sanctioned - legal entities, with warning, for failing to comply with the legal provisions regarding the periodical report notification to FSA, being instituted, furthermore, the obligation to notify the report of the financial auditor and the report regarding the activity carried out as investment consultant, in the case of one of these companies.

Following the monitoring of the authorization conditions, the following measures were applied:

- sanctioning an investment firm, as follows:
 - » suspending the authorization license for 90 days after failing to hold the minimum own funds, lack of liquidity for the current obligations and failing to fulfill the deadlines undertaken by the company, in the conditions in which it was requested the implementation of some measures in order to ensure a prudent management and adequately cover the risks;
 - » suspending the voting rights related to the direct holding in the investment firm;
 - » selling within 3 months of shares owned by the major shareholder of the investment firm.
- sanctioning 3 members of the board of directors in two investment firms, as follows:
 - » sanctioning with fine amounting to Lei 20,000 the president of the board of directors and the indirect significant shareholder in the investment firm, withdrawing the approval granted for the board of director's member status and prohibiting to exercise for 3 years some management positions in the investment companies;
 - » sanctioning with fine amounting to Lei 1,000 the president of the board of directors for the flawed fulfilment of the tasks accruing to him/her, which lead to the failure to comply by the company of certain legal provisions (maintaining a minimum number of members of the company's board of directors);
 - » sanctioning with fine amounting to Lei 1,000 a member of the board of directors for the flawed fulfilment of the tasks accruing to him/her, which lead to the failure to comply by the IF of certain legal provisions (maintaining a minimum number of members of the company's board of directors);
- sanctioning two investment consultants (a legal entity and an individual) with warning and withdrawing the authorization licence for failing to comply with the requirements foreseen by the regulations in force and for unjustified refusal to answer the FSA's requests;
- total amount of the fines was Lei 22,000.

Following the monitoring activity of the issuers the following measures were applied:

- sanctioning with fine 10 individuals, with fines between Lei 10,000 and Lei 30,000, as follows:
 - » sanctioning three managers of the issuers with fines amounting to Lei 11,000 each for failing to comply with some obligations imposed in a document issued by FSA;
 - » sanctioning one manager of the issuer with fine amounting to Lei 10,000 for failing to comply with the reporting obligations;
 - » sanctioning one manager of the issuer with fine amounting to Lei 13,000 for failing to comply with the reporting obligations;
 - » sanctioning one manager of the issuer with fine amounting to Lei 16,000 for failing to comply with the obligations to send some information to the Authority;
 - » sanctioning four managers individuals of the issuer with fine amounting to Lei 30,000 each for failing to comply with some obligations imposed in a document issued by FSA.
- total amount of the fines was Lei 192,000.

Issuers and public offers

The Romanian issuers monitoring activity aimed at continuing the measures for reaching the emerging market status and increase the liquidity of the capital market by consolidating the dialogue and collaborating with the financial entities, as well as with other institutions of the state in order to support the launch of new initial public offers at BSE. Furthermore, it was envisaged the bond market development as alternative financing through the corporate/municipal bond and stimulating the company bond issuing listed on the capital market.

At the end of 2019, the financial instruments, which made the object of the FSA monitoring, were:

On the regulated market:

- Shares - 82 share issuers, with an overall capitalization of Lei 111,892 million, the traded value being of Lei 9,640 million in 2019;
- Bonds - 77 issues, the BSE traded value – Lei 1,994 million;
- Structured products – the traded value increased to Lei 186 million in 2019.

On the multilateral trading system:

- Shares - 298 issuers, with an overall capitalization of Lei 8,928 million, the traded value being of Lei 233 million in 2019;
- Bond - 16 issues, the traded value – Lei 58 million.

Approval of the prospects, purchase/taking over offer documents, announcements for the withdrawing from the transaction, complying with the related legislation

The operations approved by FSA during 2019 regarding the activities of the Romanian issuers consisted of:

- **3 prospects drafted in order to admit to transactions** the bonds and a basic prospect related to the issuing of the structured products issued by SSIF BRK FINANCIAL GROUP SA;
- **9 prospects related to the primary share sale offers** whose value was of Lei 73,543,851:

Primary public offers		
Company	Volume (no. of shares)	Value (lei)
PRODLACTA SA BRAȘOV	4,840,077	5,353,591
IOR SA BUCUREȘTI	83,241,368	8,324,137
ZENTIVA SA BUCUREȘTI	280,055,890	28,005,589
SERICO SA BUCUREȘTI	10,362,315	1,036,232
LACTATE NATURA SA TÂRGOVIȘTE	807,595	2,018,988
SOCIETATEA ENERGETICĂ ELECTRICA SA	208,554	2,085,540
METALICA SA ORADEA	645,820	1,614,550
AURORA SA TG.FRUMOS	248,283	620,708
AVIOANE CRAIOVA SA	9,793,807	24,484,517

Source:FSA

- **A public offer document for mandatory taking over** whose value was of Lei 1,275,008;

- **13 purchasing public offer documents** whose value was of Lei 286,869,977;
- **18 withdrawals from transacting on the BSE/multilateral trading system managed by BSE:**

Issuer	Reason for withdrawing from the transaction
PETROLEXPORTIMPORT SA	bankruptcy
MARA COM MIXT SA	merger
INAR SA	finalizing squeeze - out
BOROMIR PROD SA	finalizing squeeze - out
COMNORD SA	finalizing squeeze - out
COMBGORJ SA	bankruptcy
AUTO CENTER SA	finalizing squeeze - out
GENERALCOM SA	shareholders' decision
VULCAN SA	bankruptcy
AVIAȚIA UTILITARĂ SA	shareholders' decision
LAMINORUL SA	bankruptcy
AMONIL SA	bankruptcy
COMPANIA DE INFORMATICĂ APLICATĂ	shareholders' decision
METAV SA	finalizing squeeze - out
AVICOLA BUCUREȘTI SA	shareholders' decision
OLTCHIM SA	bankruptcy
FLAMURA SA	shareholders' decision
LACTA GIURGIU S.A	bankruptcy

Source:FSA

- two announcements regarding launching the withdrawal of the shareholders based on the provisions of art. 42 (Announcements related to initiating the withdrawing procedure of the shareholders based on the provisions of art.42 (squeeze-out) of the *Law no. 24/2017 regarding the issuers of the financial instruments and market operations*):

Issuer
METAV SA BUCUREȘTI
BALNEOCLIMATERICA SA SOVATA

Source:FSA

- registering in the FSA records the corporative operations:

Type of operation	No. of Registration Certificate for the Financial Instruments
Equity increase	17
Equity decrease	11
Structured products	186
Merger	1
Bond	17
Newly admitted companies to transact on MTS	2
Total	234

Source:FSA

According to the legal provisions harmonized with the European directives, as host-state, FSA receives from the similar authorities in the EU, the prospectus approved by them, the certificate and summary of the prospectus in the Romanian language. According to the legal norms, in these cases FSA does not initiate any approval procedure of the prospectus.

During 2019, FSA was notified regarding the approval of 33 such prospectus and 125 supplements (amendments) to the prospectus already approved. In its turn, FSA, notified two authorities in the Member States (Hungary and Poland) regarding the approval of the basic prospectus drafted by SSIF BRK FINANCIAL GROUP SA Cluj-Napoca.

In order to admit to trading of some structured products issued based on the basic prospectus approved by other authorities in the EU and notified to FSA, among other documents requested by BSE, are the registration certificates of the said securities to FSA. For the structured products issued by Erste Group Bank AG Austria based on prospectus certified by the authority of the original Member State - FMA Austria - and of the communicated final deadlines, were issued 115 registration certificates for the structured products.

Monitoring the activity and operations carried out regarding and by the issuers of the securities from the perspective of the rights deriving as shareholder, in order to ensure the full, correct and in time information of the shareholders and of the potential investors as well as protecting them by analyzing the events which appeared in the company's lifetime

In 2019, a special attention was granted to the **analysis/investigation of the compliance with the limits for the equity holding of the financial investment companies (SIF) as effect of the provisions of art. 286A1 of the Law no. 297/2004 regarding the capital markets.**

The activities carried out by the FSA involve a complex verification mechanism for complying with the equity holding limit of the financial investment companies. Most often this mechanism involved extraneity elements, which presupposed both the stability of some contacts and information exchanges with the competent authorities in other states, as well as knowing the legal framework related to the operations carried out in foreign jurisdictions. Moreover, on the national plan, over time, it was collaborated with other state authorities in order to obtain relevant data and information in the investigation process.

The results of the FSA activities in this process present a special importance from the point of view of maintaining **an equitable environment in order to exercise the rights of the shareholders in the framework of the shareholders' general shareholders meetings**, according to the holding limits expressly regulated. The intervention of the Authority is manifested on the one hand through the immediate cut of the voting rights of the shareholders for which it was identified such a situation for surpassing the limits established by the legal provisions, for the general meeting for which the analysis was carried out, and on the other hand through imposing and monitoring the fulfilment of the obligation to sell within the legal deadline the holdings surpassing the 5% threshold.

To analyze the impact of the provisions of art. 286A1 of the *Law no. 297/2004 regarding capital market*, it was proceeded thus:

1. Depozitarul Central SA - were requested and analyzed the information regarding:

- the list of shareholders owning more or at least the established relevant threshold (in the present case, it was established a relevant threshold of 0.1%);
- the list of joint-stock companies in which individuals which own a quota in the share capital beyond the relevant threshold (0,1%) have the status as shareholder on the date of the last consolidation of the shareholder registry;
- the list of holdings for the SIF's managers, both at the managed SIF, as well as for other

issuers;

- status of the SIF shareholdings which the companies in which the individuals own more or at least the established relevant threshold (0.1%) or the SIF managers have the status as shareholder, associate, founder, member of the board of directors/supervision, director;
- status of the SIF shareholdings owned by companies which are in the portfolio of another SIF where the analyzed SIF is a shareholder;
- status of the direct transfers registered/of any tasks having as object shares issued by SIF.

2. Shareholders and managers - it was requested, and it was analyzed the information regarding:

- affidavits for a series of shareholders who own more or at least the established relevant threshold (0.1%) from which it results that they act in collaboration with other individuals regarding the SIF;
- affidavits of the managers (for the case in which they are shareholders) from which it results if they act in collaboration with other individuals regarding the SIF;
- affidavits as shareholders, associates, managers, CEOs in which were identified shareholders or managers of the SIF according to the applied procedure.

3. Financial investment companies - it was requested and were analyzed information regarding documents owned, drafted and sent to the FSA regarding the collaboration cases identified by it;

4. Registry office - it was requested information regarding the family among the shareholders;

5. Electronic Archive for Real Estate Guarantees - it was verified if individuals identified as being relevant in the analysis carried out are found in various judicial reports with other individuals/legal entities, of the type registered in the Electronic Archive for Real Estate Guarantee and which might constitute clues for collaboration in report with analysis SIF;

6. In addition, it was analyzed the transactions carried out with the SIF's share during the analyzed period (the parties transactions, intermediaries, custodians etc.); it was monitored also the analysis of the notifications registered having as object art. 286A1 regarding the analyzed SIF; it was identified and considered the situations in which CNVM/FSA acknowledged the existence of the collaboration measure in the case of the analyzed SIF (Certifications CNVM/FSA rulings issued before); it was checked the website of the legal entities for identification of some mother-company-branch relations and/or control and it was verified the functioning conditions of some types of financial instruments issued by entities in other Member States which own SIFs.

The general shareholder meetings of the financial investment companies carried out during 2019 led to a series of measures adopted by FSA in the application of the provisions of art. 286¹ of the *Law no. 297/2004 regarding capital market*, corroborated with the provisions of the art. 2 and 3 from the *Instruction no. 6/2012* issued in the application of the provisions of art 286¹ of the *Law no. 297/2004 regarding capital market*.

In the context of the permanent monitoring of the financial investment companies' activity, this analysis presents a special importance regarding the supervision of the behaviour of the financial investment companies' shareholders while carrying out the general shareholder meetings and ensuring the compliance with the related legislation for the collaboration action and of the 5% equity holding threshold of the financial investment companies, considering the fact that within the general shareholders meetings of the SIFs it is submitted to the vote aspects which will have an impact upon a great number of investors (more than 5 million shareholders in the case of each SIF), on the one hand, and of the stock market, on the other hand.

Reanalysing/reconfiguring the supervision model with the purpose of making them efficient, regarding the periodical reports, namely financial statements of the issuers

FSA monitors the compliance of the financial information with the accounting applies (IFRS and the national accounting standards) for the issuers on the regulated market.

In addition, FSA verifies the compliance by the all issuers (whose securities are traded on the regulated market and the alternative transacting system) with the reporting requirements foreseen by *Law no. 24/2017 regarding issuers of financial instruments and market operations* and the *FSA Regulation no. 5/2018 regarding the issuers of financial instruments and market operations*.

According to the *Public Finance Ministry Order no. 881/June 25th 2012 (Order no. 881 dated June 25th 2012 regarding the application by the trading companies whose securities are admitted to trading on a regulated market for the International Financial Reporting Standards)*, “Beginning with the financial year 2012, the joint-stock companies whose securities are accepted to be transacted on a regulated market are obliged to apply the International Financial Reporting Standards (IFRS) when drafting the annual individual financial statements.” This normative act is completed with the *Public Finance Ministry Order no. 2844/2016 for approving the accounting regulations according to the International Financial Reporting Standards*. Furthermore, FSA annually publishes on the website the List of trading companies to whom apply the provisions of the *Public Finance Ministry Order 881/2012*”.

The credit institutions apply the *Public Finance Ministry Order no. 27/2010 for the approval of the accounting norms according to the International Financial Reporting Standards*, applicable to the credit institutions for the individual financial statements beginning with the 2012 financial year.

The companies authorised, regulated and monitored by FSA apply the *FSA Norm no. 39/2015 for the approval of the accounting regulations in accordance with International Financial Reporting Standards*, applicable to the entities authorised, regulated and monitored by the Financial Supervisory Authority beginning with December 31st 2015.

Regulation no. 1606/2002 of the European Parliament and of the Council on the application of the international accounting standards which drafts the consolidated financial statements is in force since 2007, the year Romania became part of the European Union.

Thus, during 2019, the issuers of the securities on the regulated market have published 92 annual individual financial statements, of which:

- 42 audits by BIG 4 (Deloitte, Ernst & Young, KPMG and PricewaterhouseCoopers);
- 71 with opinion without reserves.

Furthermore, 37 consolidated annual financial statements were drafted. Thus, in terms of compliance with International Financial Reporting Standards, during 2019, FSA checked the annual financial statements of 29 issuers (11 issuers extended verification and 18 focused verification).

Ensuring that the de facto situation is according to the de jure foundation in the market abuse investigations materialised through the conformity of the investigation means, relevant aspects and the aimed purpose

FSA, as competent authority, ensures the application of the provisions in Title V. Market abuse from the *Law no. 24/2017 regarding issuers of financial instruments and market operations* and of the provisions in the *EU Regulation no. 596/2014 on market abuse (MAR)*.

Transposing the *(EU) Regulation no. 596/2014 on market abuse (MAR)*, with the role of consolidating and replacing the existing framework existent established by the *Directive on market abuse (2003/6/EC)*, for the purpose of ensuring the integrity market and the protection of the investors, led to the extension and intensification of the activities carried out by FSA in relation to the aimed entities.

As result of the monitoring activities for the compliance of the legal reporting and conduct requirements by the appropriate subjects, as well as based on the notifications/reports for the received suspected transactions, **FSA carried out 197 specialised analysis**, of which:

- 97 targeted suspicions of inside information disclosure,
- 23 possible suspicions of market manipulation and,
- 77 aimed at identifying the compliance degree of the subjects regulated with the obligations and prohibitions instituted by the legal framework.

In this context, in 2019 numerous analysis were drafted, which had as object:

- complying with the legal framework regarding the unfolding of the repurchasing programs for the closed periods;
- carrying out some market surveys especially when such an operation presupposes divulging some inside information;
- complying with the legal framework regarding the publication of inside information/delaying its publication in justified situations;
- informing the issuers regarding the established obligations accruing to them, with direct impact upon the shareholders/investors in financial instruments issued by them;
- complying with the prohibition to trade during the closed period, applicable to individuals with management responsibilities within the issuer, as well as of the obligation to notify the issuer, when reaching the value threshold of Eur 5,000 during a calendar year.

The investigations regarding the possible market manipulation deeds or use of the inside information involves, briefly, if any, the following:

- No matter the type of analysis, one of the approached aspects aimed at identifying the compliance degree of the regulated subjects with the obligations and prohibitions instituted by the legal framework, mainly based on the data and information supplied by the issuers and reported to their behaviour regarding the compliance with the financial calendar, publication of the inside information, informing the aimed individuals regarding the obligations and prohibitions established by MAR, drafting/updating the lists with the management personnel and the individuals close to them, complying with the requirements related to the unfolding of the repurchasing programs etc.;
- Identification and analysis of the transaction orders which were at the basis of the transactions, of the manner of introducing them in the system, verifying the cases in which the cancelled or amended orders lead to sensible variations for the traded price;
- Analysis of the transactions carried out and the ways for carrying out the intermediation activities (including, when required, the evaluation of the intermediaries' conduct in order to verify the compliance level with the legal provisions applicable on the issue of prevention and identification of the market abuse);
- Data identification and analysis regarding the transactions history of the aimed individuals;
- Identification and analysis of the cash flows emphasised by bank statements, of the information regarding the real beneficiaries and of the credit agreements and mortgage resulting from documents placed at the disposal by the credit institutions, of the information which appeared in the Electronic Archive for Real Estate Guarantee and of other information relevant in the matter;
- Identification and analysis of the information regarding the Internet protocols from where the

transacting orders were sent online;

- Identification and analysis of the company/economic context in which were issued the orders/ the transactions were carried out;
- During the verification process specific in the analysis regarding the possible incidence of a transaction deed of the inside information:
 - Identification and analysis of the information acknowledged by the investors via the current and periodical reports for the purpose of verifying their degree of reliability, the analysis of the evolution of the issuer's shares and of the market in general during a larger time interval, both before, as well as after the public dissemination of the information and the impact produced by this information upon the investors;
 - Identification and analysis of the possible purpose pursued by the issuer through the operations acknowledged by the investors reported in the existing normative framework, including the resolutions of the legal bodies adopted in this regard;
 - The analysis of the drafting manner for the financial statements and the impact produced by their publication by registering some variations of the price for the financial instruments, including from the perspective of the compliance with the principles and applicable accounting regulations in connection to the by facto situation which generated a certain accounting operation;
 - Identification and analysis of the professional judgement presented by the issuer as part of the adoption and implementation of the accounting method, monitoring the application of the continuity principle and the identification of the possible deviations from it;
 - The analysis of the investment behaviour of the persons concerned in order to establish if there is a connection between the possible transactions carried out by them and the publication of the preliminary or annual financial statements, having as result obtaining financial gains.
- The verification process specific in the case of an analysis regarding the possible incidence of a market manipulation deed supposed the analysis of the transacting behaviour of the suspected individuals, the request and analysis of the client files, their activity in the transaction account, as well as the impact of their activity upon the price of the said financial instrument. The analysis did not emphasised indicators of manipulative behaviour, for this conclusion being necessary to verify the orders and transactions in key moments of that transaction day;
- The analysis of the possible situations of information dissemination which give false or misleading signals upon the price of the financial instruments involved the verification of the existence of all the conditions requested by the incriminating norm both in terms of the actual existence of the diffusion act, as well as upon the impact produced by the published information upon the price, as well as of the trading behaviour, through the investigation of the orders, associated with the disseminated information. Since related to the essence of this type of deed, in addition to obtaining the benefits/gains, it is imposed the condition of the norm according to which the person might have known or should have known that these are false or misleading, the analysis aimed at identifying the connections between the quality of the individual who disseminated the information and the disseminated information.

Foreclosures

A distinct activity of the FSA is that related to the foreclosures carried out through the capital market mechanisms unitary at the market level (by the adequate amendment of the art. 228 of the BSE Code), finalised with the special-order sale operations. This activity consists in the analysis and monitoring of the foreclosures/garnishments/layoffs, following the information received by

the Central Depository/Bailiffs, including regarding those held by the Romanian state through the Authority for the State Asset Management (AAAS), informing the AAAS regarding the placement of garnishments/handing over the garnishments/carrying out layoffs owned by the Romanian state via the AAAS. We mention the fact that in all the cases in which are carried out transactions with assets held by the Romanian state via the AAAS, in the foreclosure procedure via the special-order sales method, FSA proceeds to the adequate informing of the AAAS.

Improving the monitoring process, in real time, of the transacting activity on the regulated markets/alternative transacting systems for the identification of the transactions/orders which generate an abnormal evolution of the price and volume

Activity	2019
Supervision in real time of the trading activity on the regulated market, alternative transacting systems, Over the Counter (OTC) with financial instruments admitted for transaction on a regulated market in Romania (no. of supervised issuers) - shares, bonds, structured products etc.	529
Drafting the daily/weekly transaction report (RZT)	300
Verified RZT alerts	2,069
Preliminary analysis of the cases considered deviations from the normality/possible market abuse cases	25
Monitoring the transactions reported by the Transaction Reporting Exchange Mechanism (TREM) and correspondence (intermediaries, DOIT, EU competent authorities)	20
Ensuring the data quality for the financial instruments reported in the Financial Instruments reference Data System (FIRDS)	375
Answers to the ESMA tests regarding the data quality from TREM, FIRDS and TRACE (<i>Access to Trade Repositories Project</i>)	240
Managing the transaction suspension and retaking notifications (SARIS - <i>Suspensions and Restorations Instruments System</i>)	62
Managing the short-selling reports and NBR/ESMA notifications	10
The transaction analysis in repurchasing programs measures and price stabilisation (no. of transactions)	10,248
Participation in implementing the Central Securities Depositories Regulation (CSDR)	90



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Entities in the private pensions system sector monitored by the FSA

PILLAR II ENTITIES

- 7 managers
- 7 privately managed pension funds
- 3 depositories
- 16 marketing agents - legal entities

PILLAR III ENTITIES

- 8 managers
- 10 voluntary pension funds
- 2 depositories
- 35 marketing agents - legal entities

**There are managers, depositors and marketing agents functioning both on the 2nd as well as on the 3rd pillar. They were considered once for the total*

Private Pension System Rights Guarantee Fund

Supervision of the private pensions system sector

At the end of 2019, the private pension system represents the main market of the non-banking financial sector in Romania, which holds an approximate 6.09% GDP ratio. With a history of only 11 years, the private pension system increased gradually and continues to develop in a sustainable manner.

The private pension system represents a component of the Romanian financial system with the highest safety degree in the present, a fact which is due to the existence of the technical provisions, a guaranteeing fund, a minimum rate of return etc.

The private pension funds holds large and stable long term financial resources, which have the potential to fully transform the functioning of the financial market. Thus, the supervision activity of the private pension system sector is circumscribed to the objective of ensuring the stability and integrity of the private pension system and of an efficient functioning of the entities which activate in the system. The supervision activity and inspection together with that of the authorization and regulation contribute to the protection of the interests of the participants and beneficiaries of the private pension funds.

The private pension system sector within FSA contributes to the consolidation of an integrated functioning and supervision framework and has as objectives:

Ongoing improvement of the supervision process, to permanently maintain a low risk in the private pension sector

Ensuring prudential monitoring and control, based on the identification, prevention and management of their risks

Gradual filling of the “compliance”-type of monitoring, currently practiced, with supervision based on the evaluation of their risks, by implementing the key principles of the risk evaluation and by using the practical approach.

The supervision is based both on verifying the compliance elements, as well as on the identification of the risks related to the managers’ functioning, including from the perspective of the quality of the managing act, but also from the perspective of complying with the rules according to which the private pension funds function and the potential risks which can affect in future their proper functioning.

The foundation of the supervision activity is made up of both the quantitative analysis, as well as the analysis of the qualitative aspects and establishing the possibility of certain risks to materialise. Moreover, focus was placed on verifying the correct, complete and on time information manner for the participants, as protection factor and their financial education.

The efficiency of the supervision activity is the result of adopting some proactive and reactive measures and considered all the aspects of the managers’ and funds’ functioning, which consolidate the safety elements of the private pensions, such as the minimum rate of return, guaranteeing the net contributions and constituting the technical provision, as well as asset separation.

An increased importance was granted to the way it was applied the provisions regarding the control and internal audit, as well as the risk management in the private pension system. Therefore, the attention of the monitoring was oriented towards the risk administration and was evaluated the organisational and functional framework at the level of the pension fund managers. This process offers the possibility to monitor and identify the procedural approach for each manager in terms of risks both from the point of view of the private pension fund management, as well as his/her own activity.

According to the analysis carried out, **all the managers ensured the organisational and procedural framework necessary for the risk management to which the pension funds are exposed.**

The guidelines and recommendations for the functioning of the internal controls were considered by the monitored entities, this way increasing the comparability of the implementation and functioning degree of the internal control, both from the perspective of the activity carried out by the responsible individuals, as well as a measure proposed to be implemented by the entities.

Given the increase of the payment volume for the invalidity pension and death, compared to the previous years, as well as the number of participants from the age groups 50+ years to the 2nd and 3rd pillar, analysis were started regarding the organisation manner of the activities for the asset and liability management of the administered pension funds. The results have demonstrated that the managers have the necessary liquidity for handling the exists from the system of the participants in the upcoming period. However, it is acknowledged the necessary training over time of some efficient operational structures dedicated to the implementation of the performant framework for the correct asset and liability management (payment obligations) of the ALM type (*Assets and Liabilities Management*), so that the future payment requests, placed on an ongoing ascending trend can be honoured correctly and on time.

Off-site supervision of the private pension system sector

In order to decrease the risks identified within the private pension sector and in order to promote a strong pro-active accent, FSA supervision was based on complying with the several principles for monitoring and controlling the pension system in Romania.

Protection of the interests of the participants and of the beneficiaries, by ensuring an efficient functioning of the private pension system and ensuring their access to adequate information

In 2019, **a special attention was granted to the reporting process, verifying the notified data and information, as well as improving the quality of the drafted analysis and synthesis, aiming at increasing the relevance and accuracy degree.** The optimisation process for reporting by the entities in the private pension system is an important element in the improvement of the off-site supervision activity and the improvement of the prudence attribute. The purpose was the increase of the capacity to spot on time the possible issues, to analyse and correct them, before they would significantly affect the interests of the participants.

During 2019, **FSA carried out quarterly analysis of the evolution of the concentration degree, of the evolution of the rentability for the private pension funds, of the liquidity risk, of the interest rate risk, of the exchange rate risk and of the UNAV (Unitary Net Asset Value) volatility evolution for a private pension fund, having as objective the identification of the risks to which it is exposed the private pension system in Romania.**

The supervision process must be preventive and anticipating

For the actuarial evaluation of the privately managed pension funds which has as purpose to determine the necessary technical provision related to each fund, there were compared the results obtained by the specialists in FSA with the ones reported by the fund managers. Moreover, it was presented the percentage differences existing among them, as well as drafting the actuarial evaluation reports which represents a precise and adequate evaluation of the payment obligations for the private pension fund and of the technical provisions necessary for the managers, in order to ensure the risks related to these payment obligations.

In order to carry out some efficient monitoring actions for the pension system in Romania, FSA continued the project for the development and implementation of an Actuarial Management, Analysis and Evaluation IT System, as well as establishing a work group in order to implement the project.

The objectives of the work group consist of: establishing the technical, functional and operational specifications of the IT system; preliminary estimation of costs for the development and implementation of the *Actuarial Management, Analysis and Evaluation Computer System* with the additional components and necessary IT resources, based on open discussions, relying on the official invitation at the FSA headquarters, with private operators specialized in software development.

On-site supervision and sanctions applied in the private pension system sector

The inspection activity carried out by FSA is an activity developed on two components (**compliance and risk**), which detects deviations from the legislation in force, requests the rectification of the non-compliance situations, identifies processes that may constitute risk factors and drafts recommendations for improving the workflows and procedures and reduce their risks.

The inspection activity carried out was not limited to an activity for the compliance checks performed to detect deficiencies, having in fact both a prevention and a remediation component, to ensure a stability system for the Romanian private pensions and its efficient functioning.

In the context of frequent legislative changes and the increase in the number of operations performed by entities, **the inspection activity was a dynamic process**, which was permanently adapted to the volume and activities carried out by the players involved in the private pension system, in order to:

- to identify the potential risks to which the entities are exposed and to propose measures for improving the activity carried out, in order to mitigate these risks;
- to identify possible deviations from the legislation in force and request their correction;
- to reasonably ensure that the overall work of the private pension fund managers and of the depositaries is properly carried out.

The efforts made for carrying out inspection actions of high standard were related to the implementation and application of the best practices by monitoring, evaluating, adapting, and continuously updating them in order to achieve the proposed objectives.

The principle of prevention and the advanced nature of the supervision process also governed the inspection activity in the private pension sector which, in 2019, had the role of preventing, identifying and correcting situations contradicting the legal provisions in force and the good practices.

The inspection actions (on-site surveillance), carried out annually in accordance with the provisions of the *Government's Emergency Ordinance no. 50/2005 on the establishment, organization and operation of the Supervision Commission of a Private Pension System*, aimed at fulfilling the following institutional objectives:

- the protection of the interests for the participants and beneficiaries of the private pension funds;
- ensuring a stability system for the Romanian private pensions and ensuring their efficient function of this;
- contributing to the consolidation and stability of the financial system.

FSA planned 13 inspection actions in 2019

Private pensions
managers

Privately manager
pension funds

Voluntary pension
funds

Depositories of
the pension funds
assets

The main targets were:

- verifying the functioning of the corporation and the governance system through the internal control of the entities in order to identify whether the policies and procedures drafted are appropriate in relation to the volume and complexity of the activity, if they are properly and periodically applied and reviewed, as well as the role of analysing the effectiveness of using tools and means to identify, manage and reduce their risk;
- verification and evaluation of the activities specific for the private pension system considering: nature, cause, impact, remediation and/or reduction manner, as well as the manifestation form for the related risks, in order to ensure an efficient functioning (accession, conversion, active use, transfer etc.);
- monitoring the way in which the investment strategy adopted by each private pension fund is applied and the evaluation manner of the private pension asset fund;
- verifying the establishment and maintenance of an appropriate level of assets covering the provision of technology;
- functioning fees due to the FSA.

Following the control activity, in the private pension system, the following sanctions were applied:

- Written warning: 3 managers;
- Written warning: 2 CEOs;
- Written warning: 2 individuals managing internal control structures;
- Misdemeanour fine: 1 CEO, amounting to Lei 6,000.



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Regulating the non-banking financial market



Integrated regulating activity

The integrated regulation activity ensures a consistent framework at the FSA level, which aims at harmonizing the legislative provisions, in order to consolidate the existing legal framework at the FSA level, to identify and implement the best practices in the field, to ensure the functionality in optimal parameters imposed by the European and international standards, as well as to ensure the transparency of the financial markets.

The integrated regulatory activity during 2019 consisted in issuing the following integration normative acts:

1. **Regulation no. 1/2019** on the assessment and approval of the members of the management structure and of persons holding key functions within entities regulated by the Financial Supervisory Authority;

It regulates a repealed *Regulation no. 14/2015 on the approval of the members of the management structure and of the persons holding key positions within entities regulated by the Financial Supervisory Authority* and amending the framework applicable to the process of assessing and approving the members of the management structure and natural persons holding key positions within the entities regulated by the FSA. The purpose of the Regulation was to integrate the sectoral legislation and harmonize it with the the European guidelines, in order to ensure a prudent, efficient and sound management of the regulated entities. Thus, *Regulation no. 1/2019* ensures the implementation of the provisions of the relevant European guidelines regarding the assessment of the management structures, namely: the Guide on assessment of the suitability of members of the management body and key function holders, developed by EBA - ESMA, as well as the *Guide on the management body of the market operator and data reporting services providers*, issued by ESMA, but also the correlation with the national legislation, following a transposition of *Directive 2014/65 (MiFID II)*.

In order to ensure a unitary authorization process for all sectors of financial supervision, FSA regulated the assessment principles, standards and methodologies recommended by IAIS (*International Association of Insurance Supervisors*), EIOPA Guidelines on System of Governance, recommendations of EIOPA experts for the improvement of Supervision practices in the insurance - reinsurance sector, as well as the best practices on governance provided in the FSB documents (*Financial Stability Board*).

All entities regulated and monitored by the FSA, regardless of the management system, have the obligation to assess the management bodies and the persons holding key positions, both individually and collectively in accordance with the legislation in force.

The regulation contains general and common criteria underlying the assessment of the managers and the individuals holding key positions, such as good reputation, integrity, honesty, knowledge, competence and experience, but also the principles of proportionality, allocation of sufficient time, independence, diversity etc.

The regulation contains provisions on the adequacy of individuals also assessed individually and collectively, as well as criteria and principles which both the regulated entity, as well as the authority, must be able to consider within the evaluation process.

2. **Regulation no. 7/2019** for the amendment and completion of the Regulation of the Financial Supervisory Authority no. 16/2014 on the revenues of the Financial Supervisory Authority;

3. **Regulation no. 9/2019** for the amendment and completion of the Regulation of the Financial Supervisory Authority no. 2/2016 on the application of the corporate governance principles by entities authorized, regulated and supervised by the Financial Supervisory Authority;

4. **Regulation no. 13/2019** on establishing of measures to prevent and fight against money laundering and terrorist financing through financial sectors supervised by the FSA;

This regulation contains provisions on the implementation of the provisions of the *Law no. 129/2019 for preventing and combating money laundering and terrorist financing*, as well as for amending and supplementing some normative acts, as well as recommendations contained in the guidelines issued by the European Supervisory Authorities - ESAs (EBA, ESMA, EIOPA):

1. Joint Guidelines on simplified and enhanced customer due diligence and the factors credit and financial institutions should consider when assessing the money laundering and terrorist financing risk associated with individual business relationships and occasional transactions;

2. Joint Guidelines on the characteristics of a risk-based approach to anti-money laundering and terrorist financing supervision, and the steps to be taken when conducting supervision on a risk-sensitive basis.

The main provisions of *Regulation no. 13/2019*, regulated within some distinct chapters/sections/Addendums, refer to:

- Obligations of the regulated entities and arrangements for the organization of an internal control framework in order to prevent and combat money laundering and terrorist financing (SB/ FT) with particular reference to the SB/ FT identification, assessment and risk management measures;
- Aspects regarding the appointment of compliance officers and persons designated for the purpose of preventing money laundering/ terrorist financing;
- Aspects regarding the supervision activity and the risk-based control carried out by the FSA regarding the money laundering and terrorist financing;
- Observations regarding the cooperation with other national authorities (National Office for Prevention and Combating Money Laundering) and in other states;
- Specific guidelines regarding risk factors for money laundering/ terrorist financing, as well as customer due diligence for all categories of regulated entities;
- Provisions regarding the ascertainment of the facts that represent breaches of the legislation incidental to the prevention and combating of money laundering/ terrorist financing, namely the application of measures and sanctions according to the provisions of the legislation in force.

5. **Regulation no. 15/2019** for the modification of the alignment (8) of article 47 of the Regulation of the Financial Supervisory Authority no. 13/2019 on the establishment of the measures for the prevention and combating money laundering and terrorist financing through the financial sectors supervised by the Financial Supervisory Authority;

6. **Republishing the Regulation no. 16/2014** by integrating the 10 normative amending acts into a single consolidated act;

Regulation no. 16/2014 on the revenues of the Financial Supervisory Authority establishes the revenues that are constituted as own financing sources for the Financial Supervisory Authority, in accordance with the provisions of art. 18 alignment (1) and (2) of the *Government Emergency Ordinance no. 93/2012 on the establishment, organization and functioning of the FSA, approved with amendments and completions by the Law no. 113/2013, with the later amendments and*

completions.

The main amendments and completions of the *FSA Regulation no. 16/2014 via Regulation no. 7/2019* concerned the following aspects:

- Financial Instruments and Investments Sector - amendment of some articles, abrogation of some and elimination of references to them in the context of the entry into force of *Law no. 126/2018 on the financial instruments* and the Regulations issued for its application. Following an amended of the legal framework, some tariffs were repealed and new tariffs have been introduced. Following some practical experiences, a reference has been corrected and some articles have been revised for clarity.
- Insurance-Reinsurance Sector - amendment of some articles in order to avoid any interpretations contrary to the exceptional spirit already foreseen, the correlation with the provisions of art. 8 alignment (14) of *Law no. 237/2015 on the authorization and supervision of the business of insurance and reinsurance*, amendments in order to correlate with the terminology used in the primary sectoral legislation, repeal and elimination of the references to some articles in the context of grouping tariffs specific to the insurance domain and amendment of an article for the correlation with the provisions of *Law no. 26/1990 regarding the Trade Register*.
- Private Pension System Sector - reduction of the share from the gross contributions received by the managers of privately administered pension funds (2nd pillar) provided in letter c) from point 1 of Addendum no. 2 of the *Regulation no. 16/2014 on the revenues of the Financial Supervisory Authority*, from 0,3% to 0,25%.

Given that, since its initial form entered into force in 2014, the Regulation has been amended and/or supplemented in a substantial manner by 8 normative acts, it was necessary and timely to republish it.

7. Norm no. 1/2019 for the amendment of the Norm of the Financial Supervisory Authority no. 4/2018 on the management of the operational risk generated by the IT systems used by the authorized / approved / registered entities, regulated and / or supervised by the Financial Supervisory Authority;

8. Norm no. 13/2019 on the unitary framework for the conduct of the statutory audit at the entities authorized, regulated and supervised by the Financial Supervisory Authority;

9. Norm no. 27/2019 for the amendment and completion of the Norm of the Financial Supervisory Authority no. 13/2019 on the unitary framework for the conduct of the statutory audit with the entities authorized, regulated, and supervised by the Financial Supervisory Authority.

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Regulating activity in the insurance-reinsurance sector

An efficient regulatory environment is the key to the optimal functioning of the insurance market. For improving the efficiency of the regulations, FSA considers the specificity of the insurance - reinsurance market, aiming at harmonizing the national legislation with the European legislation in the field.

The main objective in regulating the insurance companies and the insurance intermediaries aims at aligning the best practices in the field, both by applying the provisions of the *Solvency II Directive*, as well as regarding the distribution standards, thus ensuring the market stability and defending the rights of the insured entities.

The constant updating of a primary and secondary legislation and permanent and important concerns for maintaining a coherent legislative framework that meets the requirements and the dynamics of the insurance-reinsurance market, represent a significant share in the regulatory activity.

Thus, for 2019, the regulation in the field of insurance-reinsurance aimed at:

Technical opinions on primary legislation

(a) Law no. 71/2019 regarding the mutual insurance companies and for the amendment and completion of some normative acts

The purpose of the *Law no. 71/2019 on the mutual insurance companies and for the amendment and completion of some normative acts* is that of creating the legal framework necessary to establish, organize and regulate specific issues for the operation of mutual insurance companies in Romania, since there is presently no insurance companies and / or insurance-reinsurance with these features.

In Romania, mutual companies were regulated in the old Commercial Code as mutual insurance association, which were, however, repealed by the current Civil Code.

Therefore, the mutual companies were mentioned in the national legislation within the *Law no. 237/2015 on the authorization and supervision of the business of insurance and reinsurance, with subsequent amendments*, for them being also applicable the provisions of the Civil Code, Book I, Title IV, regarding the legal persons, these laws not regulating, however, the establishment and operation of the mutual companies.

Law no. 237/2015 on the authorization and supervision of the business of insurance and reinsurance, as subsequently amended, transposes the *Directive 2009/138/EC of the European Parliament and of the Council, dated November 25th 2009, on the taking-up and pursuit of the business of insurance and reinsurance (Solvency II)*, as subsequently amended and supplemented, a directive which provides, in points A.22 and B.22 of Annex III, the fact that the non-life insurance and the life insurance Romanian business have the legal form of joint-stock company or mutual companies.

(b) Contributions brought in the process for amending Law no. 132/2017 on compulsory insurance against civil liability for the damage to third parties caused by vehicle and tram accidents, in order to comply with the provisions of Directive 2009/138 / EC of the European Parliament and dated November 25th 2009 on the taking-up and pursuit of the business of insurance and reinsurance (Solvency II) and Directive 2009/103 / EC of the European Parliament and of the Council dated September 16th 2009 relating to insurance against civil liability in respect of the use of motor vehicles, and the enforcement of the obligation to insure against such liability

Amendment of *Law no. 132/2017 on compulsory insurance against civil liability for the damage to third parties caused by vehicle and tram accidents* was triggered by the open by the European Commission (EC) of the infringement procedure in the matter 2018/4075 having as object the legislation in force in Romania on the compulsory insurance against civil liability for the damage to third parties (MTPL) and the possible infringement, by some provisions contained therein, of some provisions of *Directive 2009/138/EC* and of *Directive 2009/103/EC*.

According to the infringement letter, the European Commission considered that, by maintaining some articles in the *Law no. 132/2017 on compulsory insurance against civil liability for the damage to third parties caused by vehicle and tram accidents* and in the *FSA Norm no. 20/2017 on motor vehicle insurance in Romania*, Romania had not fulfilled its obligations in accordance with art. 21 and 181 of *Directive 2009/138/EC* and art. 14 of *Directive 2009/103/EC*.

Proposed legislation amendments for the MTPL legislation considered mainly the following aspects:

1. Modifications to the manner of functioning of the "high-risk insured". Since the European Commission considers that through the current functioning manner, the freedom to charge is restricted by imposing a premium calculated and provided by BAAR and not by the MTPL insurer, the amending proposals considers the elimination of BAAR obligation to offer an insurance premium in the case of the high risk insured. Moreover, it was considered establishing the obligations for BAAR to allocate the high-risk insured in accordance with its own policies and procedures which establish also the conditions for signing the insurance and, in addition, the establishment of some behavioural rules applicable to the BAAR members, including on the conclusion of MTPL insurance in the case of high-risk policyholders.
2. Repealing the provisions limiting the administrative expenses and selling the insurance policy that may be included by the insurer in the premium calculation tariff.
3. Mandatory elimination of FSA to regulate the risk criteria, loading index, increase and / or correction coefficient or other instruments for the adjustment of the premium rates, conditions in which the calculation will be in accordance with the general actuarial principles accepted.
4. Harmonizing the provisions of the *Law no. 132/2017* with the provisions of the *Law no. 236/2018 on insurance distribution*.

In 2019, the FSA representatives collaborated with the Ministry of Public Finance, as initiator of the law proposal, and provided the technical support, upon request, throughout the legislative process.

The law proposal for amending *Law no. 132/2017 on compulsory insurance against civil liability for the damage to third parties caused by vehicle and tram accidents* was published on 20.09.2019, for public consultation and debate, on the website of the Public Finance Ministry and following its approvals in the meeting of the Romanian Government dated 20.12.2019, was sent for analysis to the Romanian Parliament.

Review of secondary legislation

§ Regulations

Regulation no. 2/2019 for the amendment and completion of the Regulation of the Financial Supervisory Authority no. 6/2017 on the National Protection Fund

Considering the provisions of *Law no. 132/2017 on compulsory insurance against civil liability for the damage to third parties caused by vehicle and tram accidents*, based on the proposals received from BAAR, analysed and revised by FSA, it was issued the *Regulation no. 2/2019 for the amendment and completion of the FSA Regulation no. 6/2017, regarding the National Protection Fund*, which regulates the minimum reference level for the availability of the National Protection

Fund (FNP), the types of the contributions to FNP, the manners of calculating and paying them.

§ Rules

(a) **Rule no. 5/2019** on amending and supplementing the Rule of the Financial Supervisory Authority no. 36/2015 for the approval of the Accounting Regulations on the individual annual financial statements and the consolidated annual financial statements applicable to the insurance and / or reinsurance brokers

Following the entry into force of Law no. 236/2018 regarding the distribution of insurance and of the FSA Rule no. 19/2018 on the distribution of insurance, for applying the law and in order to consider the legislative amendments brought by the Law no. 163/2018 for the amendment and completion of the Accounting Law no. 82/1991, amending and supplementing the Company Law no. 31/1990, as well as the amendment of the Law no. 1/2005 regarding the organization and functioning of the cooperation, it was issued Rule no. 5/2019.

(b) **Rule no. 6/2019** on amending and supplementing the Rule of the Financial Supervisory Authority no. 41/2015 for approving the accounting regulations regarding the separate and consolidated annual financial statements of the entities pursuing insurance and / or reinsurance business

Modification and completion of FSA Rule no. 41/2015 for approving the accounting regulations regarding the separate and consolidated annual financial statements of the entities pursuing insurance and / or reinsurance business was imposed by amending and supplementing the Accounting Law no. 82/1991, carried out via the Law no. 163/2018, which foresees the obligation of the entities that opt for the quarterly dividend distribution to prepare the interim financial statements and by taking over some general amendments and completions that the Ministry of Public Finance has brought to the accounting regulations regarding the annual consolidated individual financial statements, approved by the Public Finance Ministry Order no. 1802/2014 for the approval of the accounting regulations regarding the annual consolidated individual financial statements, with the subsequent amendments and completions.

(c) **Rule no. 7/2019** regarding the conclusion of the 2018 financial year for entities in the insurances domain

The rule applies to the insurance and / or reinsurance companies, brokerage companies, as well as their Romanian branches with their registered office in a third state or belonging to the European Economic Area (insurance and intermediation companies), which carry out their activity in accordance with the provisions of the Law no. 237/2015 on the authorization and supervision of the business of the insurance and reinsurance, with subsequent amendments, respectively of Law no. 236/2018 on the distribution of insurance, if any.

The rule regulates various aspects regarding the submission of individual annual consolidated financial statements for the 2018 financial year, both at the Financial Supervisory Authority and at the Ministry of Public Finance, such as: components of financial statements and related forms, intra and inter-form correlations, submission deadline, evaluation method being the one foreseen by the specific accounting regulations in force on 31.12.2018.

(d) **Rule no. 10/2019** for the amendment of point 18 in the addendum to the Rule of the Financial Supervisory Authority no. 7/2019 regarding the end of the 2018 financial year for the entities in the insurance domain

The issuance of the rule was imposed considering that the provisions of Rule no. 36/2015 for the approval of the accounting regulations on the individual annual financial statements and the consolidated annual financial statements applicable to the insurance and / or by reinsurance brokers, with subsequent amendments and completions, applied for the financial statements related

to 2019 and *Rule no. 7/2019* regarding the end of the 2018 financial year for the entities in the insurance field had to be according to the provisions of *Rule no. 36/2015* valid until December 31st 2018. The rule amended point 18, alignment (1), letter e) in the addendum to the *Rule no. 7/2019* as follows: "e) the report of the auditors or of the accountant expert, if applicable;".

(e) **Rule no. 16/2019** for amending alignment (3) of art. 11 of the Rule of the Financial Supervisory Authority no. 20/2018 regarding the professional training of the persons involved in the distribution activity

Following the extension of the initial deadline established for the professional training of the persons involved in the distribution activity based on *Rule no. 20/2018 regarding the professional training of the persons involved in the distribution activity*, FSA issued *Rule no. 16/2019 for amending alignment (3) to art. 11 of the Rule of the Financial Supervisory Authority no. 20/2018 regarding the professional training of the persons involved in the distribution activity*, which regulates the new professional training calendar.

(f) **Rule no. 20/2019** on applying the accounting reporting system on June 30th, 2019 of the entities in the insurance domain

The rule applies to the insurance and / or reinsurance companies, brokerage companies, Romanian branches of the companies with headquarters in third countries or belonging to the European Economic Area (insurance and brokerage companies), which operate in accordance with the provisions of *Law no. 237/2015 on the authorization and supervision of the business of insurance and reinsurance*, respectively of *Law no. 236/2018 on the distribution of insurance*, as well as the Policyholders Guarantee Fund established according to the provisions of *Law no. 213/2015 regarding the Policyholders Guarantee Fund*.

(g) **Rule no. 24/2019** regarding the Policyholders Guarantee Fund

Through this rule, a series of amendments / completions of the Policyholders Guarantee Fund were brought forward: revision of the provisions on BVC (Revenue and Expenditure Budget) of the Fund to limit the attributions of the General Manager from those of the Board of Directors (CA) regarding the verification and approval of the execution of the BVC; introduction of provisions according to which the BVC execution is verified in accordance with the Fund's internal practices and procedures, which include both control and internal audit (the only ones that should be considered under the current rule), as well as other procedures that respected; clarification of some provisions regarding the records handed over by the insurer to the Fund; the introduction by separate models for the payment requests concerning a damage claim, namely for claims related to a premium repayment; specifying the documents on the basis of which it is carried out the acknowledgement, for a uniform and transparent application; the introduction of the provision according to which the Fund is not responsible for confirming the validity of the insurance policies nor for issuing certificates regarding registered damages - these tasks accruing to the judicial liquidator etc.

(h) **Rule no. 28/2019** for the amendment and completion of *Rule no. 19/2018 on the distribution of insurance*

Rule no. 19/2018 on the distribution of insurance was amended following a European decision on the matter 2019/2248, in order to eliminate the provisions which, in the opinion of the European Commission are considered as limited for the exercise of freedom distribution via the freedom to provide services. Thus, FSA returned to the prior practice, and namely the analysis, on a case-by-case basis, of the situations for carrying out the distribution activity given the freedom to provide services, with the strict compliance and application of legislative provisions.

(i) *Rule proposal on the application of some measures in case of the United Kingdom and Northern Ireland withdraws from the European Union without an agreement*

The norm transposes the EIOPA recommendations for the insurance sector, in the context of the withdrawal of the United Kingdom and Northern Ireland from the European Union and establishes: a framework or judicial mechanism which would facilitate the systematised cessation of the activities that become unauthorized and, in addition, immediately authorize their companies according to the Union's legislation; the prohibition to conclude new agreements, their renewal, extension or increase of coverage for the agreements in force, as long as the companies are not authorized according to the legal provisions; keeping the rights of the contractors with respect to the exercise of an option or right foreseen in the existing insurance agreements for carrying out the pension benefits; conduct supervision, cooperation with the supervisory authorities in the United Kingdom, so as to ensure a correct supervision of the relevant prudential aspects, including the financial position of their companies; applying the principle of the proportionality and of the risk-based supervision; granting the agreement management in order to liquidate the portfolios, if this would reduce the time for granting an authorization; allowing to finalise the portfolios transfers on condition that they were initiated prior to the withdrawal date; the removal of companies from the United Kingdom from the national register at the time of the withdrawal from the Union and informing the public regarding the applicable cross-border judicial framework activities of the companies in the United Kingdom.

Thus, in accordance with the EIOPA Regulation, the FSA notified the intention to integrate within the national framework the EIOPA recommendations by applying the “comply or explain” mechanism, considering that these recommendations are based on *Directive 2009/138/EC2 (Solvency Directive II)*, *Directive (EU) 2016/973 (Insurance Distribution Directive)* and other relevant instruments of EIOPA and follow a series of opinions that EIOPA drafted for the promotion of consistent supervision practices in matters relating to the consequences of the United Kingdom's withdrawal from the European Union.

The FSA's efforts to comply with the EIOPA's recommendations materialized by the issuing the **Rule no. 1/2020 on the application of some measures in case of the withdrawal of the United Kingdom and Northern Ireland from the European Union without agreement**, published in the Romanian Official Gazette, Part I no. 52 on January 27th 2020.

Regulating activity in the financial instrument and investment sector

In 2019, the previous steps were continued by harmonizing the Romanian legislative framework with the new requirements imposed by the European legislative framework, by finalizing some primary legislation projects and by completing the secondary legislation in the capital markets field.

The transposition of the novelties from the European legislation for the national capital markets was carried out simultaneously with the improvement of the secondary sectoral legislation, both in the sense of updating and detailing it, as well as of creating the legal framework necessary for regulating some newly appeared situations in the practice of the capital market in an ongoing dynamic.

Thus, the regulating activity in the field of capital market, in 2019, was focused on the following main directions:

- drafting the regulations in order to create or add to the legal framework for adequately carrying out of the activities of the capital market entities;
- the analysis of the regulations issued by the capital market entities and of the amendments which took place regarding these regulations;
- analysis of the norm projects issued by other public institutions or of the legislative initiatives of the Romanian Government or Parliament, of the European institutions with an impact on the capital market;
- analysis of the manners of transposing the European regulations, with a direct applicability in the capital market domain.

Technical opinions on primary legislation

(a) At the end of 2019, **Law no. 243/2019 on the regulation of the alternative investment funds and for the amendment and completion of some normative acts** was adopted.

The law has as purpose the regulation of the alternative investment funds (AIF) regarding the organization, operation, and transparency obligations related to these types by entities (classified in AIF by contractual type and AIF by investment company type) and is part of the strategy of the Financial Supervisory Authority to revise the legal framework for the incidence of the functioning of the non-UCITS (namely, AOPC foreseen in art. 114 and 115 of the *Law no. 297/2004 on the capital markets, with subsequent amendments and completions*, category in which are included five financial investment companies - SIF, namely Fondul Proprietatea SA).

Moreover, the law completes the legal framework incident to the alternative investment fund managers (AIFM) represented by the *Law no. 74/2015 regarding the alternative investment fund managers* and through the *FSA Regulation no. 10/2015 regarding the alternative investment fund managers*.

The need to develop this law was grounded on the need to diversify the AIF collective investment schemes in order to correspond to the requirements of the Romanian investors.

(b) The law draft on amending and supplementing some normative acts on the capital market domain, as well as on establishing some measures for the application of the *(EU) Regulation 2017/2402 of the European Parliament dated December 12th 2017 establishing a general framework on*

securitization and the creation of a specific framework for simple, transparent and standardized securitization and amending Directives 2009/65/EC, 2009/138/EC and 2011/61/EU, as well as the (EC) Regulation No. 1060/2009 and (EU) no. 648/2012.

The draft law considers: the amendment of *Law no. 24/2017 on issuers of financial instruments and market operations*, namely to adjust and correlate the provisions of the national legislation with the provisions of the (EU) Regulation no. 1129/2017 on the prospectus, as well as the transposition at national level of the provisions of *Directive 2017/828/EU*; modification of other normative acts, such as: *Law no. 126/2018 regarding the financial instruments, Government's Emergency Ordinance no. 32/2012 on undertakings for collective investment in transferable securities and investment management companies*, as well as for amending and supplementing *Law no. 297/2004 regarding the capital market, Law no. 74/2015 regarding the managers of alternative investment funds, Law no. 237/2015 on the authorization and supervision of business of insurance and reinsurance and the adoption of some measures in order to the (EU) Regulation 2017/2402 to establish a general framework on securitization.*

Review of secondary legislation

The regulatory activity in 2019 was intense, numerous normative act projects being finalized and sent for publication in the Romanian Official Gazette. In addition, in order to improve the normative acts according to the best practices in the field, in order to align to the new requirements imposed by the European and well as the national legislation, as well as to follow the evolution of the markets monitored by FSA, several normative acts were drafted by amending the existence of secondary legislation.

§ Regulations

(a) **Regulation no. 4/2019** for the amendment of the FSA Regulation no. 4/2013 on the support measures taken for the deposit certificates

The Regulation introduces some provisions on the applicability of the provisions of the *FSA Regulation 4/2013* and in the case of deposit certificates, which are to be admitted for trading in an European third country on an equivalent market regulated within the meaning of *Law no. 126/2018 on the financial instruments*, complying with certain requirements and are admitted to trading in an European third country and which, at the time of admission to trading on a market in the third country, were included within certain requirements of the regulation, such as that, at the time of the acceptance, the said state was an EU Member State.

(b) **Regulation no. 5/2019** regarding the regulation of some provisions regarding the service provision and investment activities according to *Law no. 126/2018 on the financial instruments*

The regulation ensures the alignment of the secondary legislation regarding the services carried out through investments to the provisions of *Law no. 126/2018*, in compliance with the requirements of *Directive 2014/65/EU on markets in financial instruments (MiFID II)* and of the European regulation issued for their application. In addition, the regulation repeals *Regulation CNVM no. 32/2006 on financial investment services*, being removed from the secondary legislation the legal provisions covered by the European rules by direct applicability issued based on MiFID II.

The *FSA Regulation no. 5/2019* contains, mainly, provisions regarding the procedure granted by the granting and withdrawal procedure of the authorization for the investment firms (IF), the organizational requirements and the conduct rules applicable to the IF, application of the provisions of art. 10 alignment (7) of *Law no. 126/2018* on trust and other activities, margin transactions, granting credits and lending financial instruments and service provision through investments by individuals foreseen by art. 7 alignment (1) of *Law no. 126/2018*, namely the persons exempt optionally in accordance with MiFID II.

(c) **Regulation no. 8/2019** regarding the modification of the Regulation of the Financial Supervisory Authority no. 12/2018 for the implementation of some provisions of the (EU) Regulation no. 1286/2014 on key information documents for packaged retail and insurance-based investment products (PRIIPs)

The Regulation considers the elimination of the obligation for the ex-ante notification of the key information document and ensuring some secure and confidential channels for reporting actual breaches of the Regulation no. 1286/2014/EU (PRIIPs).

(d) **Regulation no. 10/2019** on the subscription procedure and repurchasing through internet of the units issued by the collective investment schemes

The regulation aims to simplify the circuit of documents submitted by investors at the first contact with the investment management company (IMC), by introducing the possibility to transmit identification documents also in digital format (without electronic signature) and introducing the possibility to use a computer application, which can identify a person (by facial recognition), in order to begin the long-distance contractual relationships.

(e) **Regulation no. 11/2019** for the amendment and completion of the Regulation of the Financial Supervisory Authority no. 3/2014 on some aspects related to the application of the Government's Emergency Ordinance no. 99/2006 on credit institutions and capital adequacy and of the (EU) Regulation no. 575/2013 of the European Parliament and of the Council dated June 26th 2013 on prudential requirements for credit institutions and investment companies and for the amendment of the (EU) Regulation no. 648/2012

The regulation was elaborated for the modification and completion of FSA Regulation no. 3/2014 on the following aspects: complete transposition of the provisions of Directive 2013/36/EU on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, namely of the option foreseen in art. 108 alignment (1), third paragraph of the Directive; modification of art. 123 in the FSA Regulation no. 3/2014, by supplementing this with provisions that explicitly reproduce the text of the option of the competent authority foreseen by the directive and clarification of the manner in which FSA approves the inclusion of the capital instruments and of the subordinated loans in its own funds for the additional level 1/level 2, namely by issuing an individual act. In this regard, the regulation introduces the amendment of art. 59 of the FSA Regulation no. 3/2014 on some aspects related to the application of the Government's Emergency Ordinance no. 99/2006.

(f) **FSA/NBR Regulation no. 12/3/2019** for the amendment and completion of the FSA/NBR Regulation no. 14/7/2018 on the provision of services and investment activities on behalf of the investment firms and of the credit institutions

The Regulation mainly concerns the modification of the conditions for the examination of the individuals providing the service through investments from point 5 to section A of Addendum no. 1 to Law no. 126/2018 on the financial instruments, in investment consultancy, so that the examination can be performed by the professional body certified/recognised organising the initial professional training course, thus eliminating the requirement to examine at the Institute of Financial Studies or at the Romanian Banking Institute and simplifying the registration process in the FSA Register / notification of the FSA of the IF staff / credit institution's personnel, namely to register the delegated agents in the FSA Register and review the documentation sent to the FSA for these persons.

§ Rules

(a) **Rule no. 2/2019** for the amendment and completion of addendum no. 1 to the Rule of the Financial Supervisory Authority no. 39/2015 for approval of the accounting regulations in accordance with the Financial reporting International Standards, applicable to the entities authorized, regulated and supervised by the Financial Supervisory Authority in the financial instruments and investment sector

The rule amends and completes the addendum no. 1 to the FSA Rule no. 39/2015 in accordance with the IFRS 16 requirements “Leasing agreements” for the financial years beginning on or after January 1st, 2019.

(b) **Rule no. 14/12.06.2019** for the application of the ESMA Guidelines on CCP conflict of interest management and an ESMA Guidelines on EMIR anti-Procyclicality Margin Measures for Central Counterparties

(c) **Rule no. 15/12.06.2019** for applying the ESMA Guidelines on internalised settlement reporting in accordance with Article 9 of the Central Securities Depository Regulation (CSDR)

(d) **Rule no. 21/2019** on the application of the ESMA guidelines on non-significant benchmark in the Regulation on benchmarks (EU Regulation No. 1.011/2016)

The rule is considering the issuance of guidelines on the procedures and functional characteristics of the supervision of a benchmark, as well as the input data, adequate and verifiable, used in the calculation of non-significant benchmarks and the issuance of guidelines on the transparency of the calculation methodology and the governance requirements applicable to the non-significant benchmarks.

(e) Rule no. 29/2019 for ESMA's Guidelines on risk factors under the Prospectus Regulation

The ESMA Guidelines on risk factors under the the Prospectus Regulation contains a series of guidelines and is addressed to the competent authorities designated by each Member State in accordance with the provisions of art. 31 of (EU) Regulation no. 2017/1129 of the European Parliament and of the Council dated June 14th 2017 on prospectus, providing them support in assessing the specificity, importance and classification by risk categories depending on their nature.

The main purpose aimed at by including risk factors in a prospectus and / or in supplement to the prospectus is to guarantee that the investors can assess the risks associated with their investment and can therefore make informed decisions. The guide is not limited to risk factors specific for a certain type of entity or a certain type of perspective.

(f) *The draft Rule for amending some normative acts in the field of the accounting regulations applicable to the entities authorised, regulated, and supervised by the Financial Supervisory Authority in the Financial Instruments and Investments Sector*

The project considers the modification of the categories of entities that apply the accounting regulations foreseen by Rule no. 39/2015 for the approval of the Accounting regulations according to the International Reporting Financial Standards, applicable to the entities authorized, regulated and supervised by the Financial Supervisory Authority in the financial instruments and investments Sector and Norm no. 40/2015 for the approval of the Accounting regulations regarding the annual financial statements and annual consolidated financial statements, applicable to the entities authorized, regulated and monitored by the Financial Supervisory Authority - the financial Instrument and investment Sector apply.

§ Instructions

Instruction no. 1/2019 for the modification of the Instruction of the Financial Supervisory Authority no. 2/2016 on the drafting and submission of quarterly accounting reports by entities authorized, regulated and supervised by the Financial Supervisory Authority - Financial Instruments and Investments Sector

The normative act amends the FSA Instruction no. 2/2016 for the information requested within the quarterly accounting reports to be according both with the applicable capital market legislation in force as well as with the requirements of the MFP.

Analysis of the regulations issued by the capital market entities

During 2019, the regulatory activity aimed and analysed the requests to amend/complete the regulations of the Depozitarul Central SA in the context of the reauthorizing process of this market institutions According to the provisions of the *(EU) Regulation no. 909/2014 of the European Parliament and of the Council dated the Council dated July 23rd 2014 on improving the securities settlement in the European Union and on central securities depositories and amending Directives 98/26 / EC and 2014/65 / EU and Regulation (EU) no. 236/2012 (CSDR)*, as well as a rule through the operation of a regulated market and a multilateral trading system administered by BSE SA.

(a) The authorization of the Depozitarul Central SA rules

In 2019, FSA concluded an authorization process of the Depozitarul Central SA, according to the *(EU) Regulation no. 909/2014 (CSDR)*. Thus, in the context of the reauthorization of the Central Depository, the following were issued:

- ***Decision no. 1584/19.12.2019*** for approving a new Regulation for the organization and operation of Depozitarul Central SA;
- ***Decision no. 1585/19.12.2019*** for approving a new Code of Depozitarul Central SA.

The authorizing activity of a new Code of Depozitarul Central SA involved the formulation of specific comments on the proposed text in collaboration with specialized directorates, the analysis of the said reformulations, as well as a collaboration process via direct correspondence with the relevant authorities, namely the European Central Bank (ECB) and the National Bank of Romania.

(b) The authorization of the rules for the Bucharest Stock Exchange (BSE)

In 2019, it was analysed the requests to amend the rules of the Bursa de Valori Bucuresti SA consisting of 3 regulations:

- *BSE Code* - market operator;
- *BSE Code* - system operator;
- *Regulation for the organisation and functioning of the BSE*, following the amendments requested by it.

Analysis of the requests to amend the BSE Code – Market operator, of the BSE Code - Multilateral Trading System and of the BSE ROF was finalized by issuing the following FSA decisions:

- **Decision FSA no. 1126/11.09.2019;**
- **Decision FSA no. 1205/02.10.2019;**
- **Decision FSA no. 1206/02.10.2019.**

Regulating activity in the private pension system sector

The development stage of the private pensions fund market, the growth of the asset volume, the evolution of the European sectoral and intersectoral regulations, as well as the identification of the needs and expectations of the participants are the key elements, which have been the basis for the development of the regulating framework in the field of private pensions.

During 2019, FSA carried out an intense activity aimed at consolidating the legal framework applicable to the private pension system, both via contributions and points of view formulated for all the primary legislation projects, as well as by drafting secondary regulations necessary to carry out in optimal conditions the actions of all the entities involved in the field. Thus, it was continued the harmonization process of the Romanian legislative framework regarding the private pensions with the European directives, being finalized the primary legislation project regarding the occupational pensions, which was adopted by the two chambers of the Romanian Parliament in the last quarter of the year. Furthermore, FSA actively participated in reviewing and finalizing the *Law Project regarding the organization and functioning of the payment system of private pensions* which, at the time this report was published, was involved in the public debate procedure and expressed the technical opinions regarding the private pension for a series of primary legislation projects initiated by the other institutions.

At the level of the secondary legislation, the regulation activity was a rich one, numerous normative act projects being drafted, debated, adopted, and sent for publication in the Romanian Official Gazette. These have aimed not only updating the secondary normative framework, following the legislative changes and the need to align with the new requirements imposed by the national legislation, but also the creation of the legal framework necessary to regulate the new situations and complete the secondary legislation in the private pension domain.

FSA carried out a series of measures attended by representatives of the Association for Privately Administered Pensions in Romania, which aimed at identifying solutions to address issues in practice, in order to change the primary legislative framework in the field of private pensions, namely *Law no. 411/2004 on privately managed pension funds, with subsequent amendments and completions* and *Law no. 204/2006 on voluntary retirement, with subsequent amendments and completions*.

Technical opinions on primary legislation

(a) *Law no. 1/2020 on occupational pensions*

Law no. 1/2020 on occupational pensions, which transposes Directive (EU) 2016/2341 of the European Parliament and Council dated December 14th 2016 on the activities and supervision of institutions for occupational retirement provision (IORPs), was adopted unanimously by Romanian Parliament and published in the Official Gazette, Part I no. 10 on January 8th 2020, entering into force on February 7th 2020.

Through the legal framework, which regulates the organization and operation of occupational pension funds, premises were created in order to obtain an additional occupational pension, distinct from the one foreseen by the public system, obtained following the status as participant to an occupational pension fund. The implementation of the occupational pension components is an important stage in the reform pension, which aims to remove the pressure on the public pension

system, thus contributing to its development and sustainability. The objective of introducing the occupational funds refers to guaranteeing an additional level of security for the future retirees, by imposing some supervision rules, as well as by the efficient management of an occupational pension system. In addition to the important social role in the private pension system, an additional benefit of the mechanism is represented by the formation of domestic capital and investment in the national economy.

The occupational pensions represent the professional pension component related to the occupation, where the right to propose an occupational pension scheme belongs to the employer, namely is a pension system which is based on the employer's option. The main feature of the occupational pension schemes is that they are offered exclusively at the employer's initiative, for its own employees. In addition to the contribution paid by the employer, a participant can contribute by his own to the occupational pension fund, the contribution being divided between the employee and the employer, according to the provisions established by the scheme and the individual adherence act. Sums representing the contributions to the occupational pension funds in Romania are tax deductible according to the tax legislation. The employer can provide in the occupational pension funds a vesting clause, i.e. postponing the acquisition by its own employees of the property right over the amounts transferred by the employer in the occupational pension fund. This clause can be extended for maximum 3 years, the objective being the employee loyalty and decreasing the staff fluctuation at the employer level. To a fund, employees of one or more employers may participate and it is important to emphasise that a fund cannot be declared bankrupt.

The normative act contains provisions which apply to the occupational pension funds, occupational pension fund managers, employers, depositories (regarding the depositing and custody activity for the occupational pension fund assets), financial auditors, Fund guaranteeing the rights in the private pension system. Furthermore, it is established the elements necessary for the establishment of the occupational pension schemes and of the occupational pension funds, including aspects related to their administration.

In the process of drafting this legislative act, FSA collaborated with the Romanian authorities, namely the Public Finance Ministry, the Ministry of Labour and Social Protection, the Foreign Affairs Ministry, the Ministry of Justice, the Romanian Parliament, the National Public Pension House, according to the law and/or agreements/protocols concluded with them, through the exchange of information and technical opinions. FSA has as objective the protection of the interests of the participants and beneficiaries of the occupational pension funds, through attributions and prerogatives related to the regulation, authorization, supervision and control activity of the entities that are the object of the normative act.

(b) *The law draft on the organization and functioning of the private pension payment system*

Considering the review of the *Law on the organization and operation of the private pension payment system*, FSA supported the finalisation of this legislative act by starting an analysis assessing the latest developments in the field, considering also *Directive (EU) 2016/2341 of the European Parliament and Council on the activities and supervision of institutions for occupational retirement provision (IORPs)* and the latest amendments to *Law no. 411/2004 on privately administered pension funds, republished, with subsequent amendments and completions*.

(c) *Formulation of technical opinions specific for private pensions*

In addition to the contributions granted to finalise the legislation acts on occupational pensions and pension payment, FSA has formulated technical opinions specific of private pensions / proposals for approval for other primary legislation projects subject to the attention in the public consultation / approval procedure, carried out by the institutions that have the status of initiator / legislator:

- *the Law draft on some fiscal-budgetary measures and for the modification and completion of*

- some normative acts*, registered with the Parliament with no. PLx no. 669/2019, for engaging the liability of the Government, according to art. 114 alignment (1) in the Romanian Constitution;
- *the draft Government's Emergency Ordinance for the amendment and completion of Law no. 411/2004 on privately administered pension funds, republished, with subsequent amendments and completions;*
 - *the Government's Emergency Ordinance project for the modification and completion of some normative acts.*

Secondary legislation

In 2019, FSA had a proactive approach in the development activities that led to the regulation of the private pension system, by drafting proposals for regulations of the necessary entities and institutions obviously. This has led to a lack of competition in future legislation on administrative litigation.

In addition to the activities needed to develop secondary legislation, the FSA has paid constant attention to:	(a) market development stage;
	(b) accumulation of experience in the application of regulations abroad;
	(c) analyze the opinion and observations formulated by the authorized/endorsed entities.

In 2019, FSA completed the applicable legal framework with 12 rules issued, divided into three directions by action:

- **Implementing the provisions of the *Government's Emergency Ordinance no. 114/2018 on the establishment of some measures in the field of public investment and some budgetary measures, amendment and completion of some normative acts and extension of deadlines*** - provisions were introduced related to the management fees, suspension of contributions for participants who chose not to contribute to the 2nd Pillar and the adequate adjustment regarding the reporting and transparent obligations:

(a) **Rule no. 3/2019 on the administration fee for the privately administered pension funds**

The rule contains new provisions regarding the manner of calculating the commission from the contributions and the amount to be transferred to the National Public Pension House (CNPP), including the deadline by when the managers must transfer the amounts to CNPP and the basic calculation of the commission for the net assets of the private pensions privately managed, as well as its manner of calculation.

(b) **Rule no. 4/2019 for the amendment and completion of the FSA Norm no. 1/2015 on the accession and registration of participants in private pensions privately managed**

The rule includes new provisions regarding how a participant requests the suspension of the contribution payment to a private pension privately managed, highlighting the stages of the process for sending information, the status of the participant's account after the suspension of the contributions to the fund and specifying the date on which the request for suspension of payments of contributions takes effect.

(c) **Rule no. 11/2019 for the amendment and completion of the FSA Norm no. 24/2015 on reporting and transparency obligations in the privately managed pension system**

The rule includes new provisions regarding the introduction of an order code in Addendum no. 1A to the rule, following the necessity to create a legal framework for relating the participants who choose to withdraw from the pension fund privately managed, According to the provisions of points 3 and 4 of the *Government's Emergency Ordinance no. 114/2018 regarding the establishment*

of some measures in the field of public investments and of some fiscal-budgetary measures, the modification and completion of some normative acts and the extension of some terms and the modification of some order codes within the addendums no. 1A, 1B, 1C and 1F to the rule, for a better reporting of some issues necessary to be emphasized in the supervisory activity and change some reporting deadlines.

- **Implementing the provisions of the Government's Emergency Ordinance no. 38/2019 regarding the amendment of the Government's Emergency Ordinance no. 28/2013 for the approval of the national program for the local development and for the amendment and completion of Law no. 411/2004 regarding the privately managed pension funds** - aspects related to the calculation of the profitability rates for the pension funds, the share capital, the investment of assets were regulated:

(a) **Rule no. 18/2019** for the amendment of letters a) and b) of art. 4 of Norm no. 7/2010 on profitability rates for the privately managed pension funds

The rule includes new provisions regarding the modification of the calculation formulas for the rentability rate of a privately managed pension fund and for the annual rate of return of a privately managed pension fund measured over the last 24 months prior to the calculating.

(b) **Rule no. 19/2019** for the amendment of the FSA Rule no. 11/2015 regarding the share capital of the fund manager of the pension fund privately managed and for the amendment of Rule no. 8/2010 on the authorization of managers of the pension fund privately managed, taking over the optional administration and the organization of assets and liabilities at the level of the private pension fund managers

The rule includes new provisions regarding the minimum equity level for the establishment, as well as for the activity of carrying out by a privately managed pension fund manager, updating the documentation necessary to be a submitted for approval by FSA, in case the capital value change, regarding the minimum level of equity required for the authorization and operation of a manager of a private pension fund who also manages one or more pension funds and the repeal of some redundant provisions and which became redundant on the allocation of the equity necessary for carrying out the management of the voluntary pension funds and of a privately managed pension fund.

(c) **Rule no. 22/2019** for the amendment and completion of Rule no. 11/2011 on investment and evaluation of private pension fund assets

The rule includes new provisions regarding the alignment of the primary legislation provisions, namely the introduction of some new asset classes, the modification of investment limits of the private pensions fund assets per issuer and group, detailing the evaluation methods for new assets and clarifications for the methods already foreseen for by the rule, so as to ensure a unitary regime, the correlation of the aspects related to the calculation of the risk level and the clarification of the operational aspects found in practice, regarding the investment activity and the evaluation of the private pensions fund assets.

(d) **Rule no. 25/2019** for the amendment and completion of the FSA Rule no. 24/2015 on reporting and transparency obligations in the privately managed pension system

The rule includes new provisions regarding the updating of reporting of the invested assets and the obligations of the pension fund (Addendum no. 2), the updating of the detailed investment reporting (Addendum no. 4), the updating of the reporting of the investment portfolio (Addendum no. 12) and the modification of the frequency with which it is transmitted to the OTC the status transactions (Addendum no. 18), from monthly to weekly, redrafting the instructions related to these topics.

(e) **Rule no. 26/2019** for the amendment and completion of the FSA Rule no. 25/2015 on reporting and transparency obligations in the voluntary pension system

The rule includes provisions regarding the introduction of some custom codes necessary for the new instruments within Addendum no. 2, changing the filling in instructions within Addendum no. 4, modification of the frequency for sending Addendum no. 18, from monthly to weekly, redrafting the instructions related to it in order to include the reporting of the OTC transactions with bonds issued by the project companies or with participation securities in the funds specialized in infrastructure investment and the introduction of new sections for reporting the structure of the investment portfolio within the Addendum no. 12 of the Rule for including the newly introduced financial instruments.

- Implementation of other provisions in the secondary legislation

(a) **Rule no. 8/2019** on amending and supplementing the FSA Rule no. 14/2015 on the accounting regulations According to the European directives applicable to the private pension system

The rule includes new provisions regarding the integration of the accounting accounts introduced by Rule no. 1/2018 regarding the completion of the Rule of the Financial Supervisory Authority no. 14/2015 regarding the accounting regulations according to the European directives applicable to the private pension system and by Rule no. 8/2018 for completing the Rule of the Financial Supervisory Authority no. 14/2015 on the accounting regulations according to the European directives applicable to the private pension system within the plans of the related accounts and the corresponding annual financial statements and taking over some general changes that the Public Finance Ministry brought to the accounting regulations approved via the Public Finance Ministry Order no. 1802/2014 for the approval of the accounting regulations regarding the individual annual financial statements and the consolidated annual financial statements.

(b) **Rule no. 9/2019** for the amendment of the FSA Rule no. 7/2017 on drafting and submitting the individual annual financial statements of the entities in the private pension system

The rule includes provisions through which an update of the balance sheet and of the profit and loss account are carried out, in correlation with the provisions of the FSA Rule no. 8/2019, for the balance sheet and the profit and loss account of the private pension and private pension brokerage companies, the balance sheet and profit and loss account related to the Private Pension System Rights Guarantee Fund.

(c) **Rule no. 12/2019** for the amendment and completion of the FSA Rule no. 25/2015 on reporting and transparency obligations in the voluntary pension system

The norm includes provisions regarding the modification of some order codes within the addendums no. 1B, 1C and 1F to the norm, for a better reporting of some aspects necessary to be emphasized in the specific activity and the modification of some reporting deadlines.

(d) **Rule no. 17/2019** for the amendment of the FSA Rule no. 34/2016 regarding the quarterly accounting reporting system reporting in the field of private pensions

The rule includes new provisions regarding the Status of the assets, liabilities and equity and the profit and loss account related to the private pensions and private pension brokerage companies, the Status of the assets, liabilities and equity and the profit and loss account related to the private pensions and the Status of the assets, liabilities and equity and the profit and loss account related to the Private Pension System Guarantee Fund.



FINANCIAL
SUPERVISORY
AUTHORITY

ANNUAL REPORT

2019



Authorisation – endorsement activity



Authorisation - endorsement in the insurance-reinsurance sector

The activity - endorsement authorization in the field of insurance had as main objectives:

- ensuring the development of the insurance-reinsurance sector by aligning with the requirements and the practice of international recognition;
- retaining at high standards the corporate governance in the insurance system;
- permanent maintenance of the requirements imposed by the fit & proper concept for the entities operating on the insurance market.

The entities regulated and supervised by FSA which were the object of the authorisation-endorsement activities in the insurance field are:

- **Insurance-reinsurance companies**, 28 companies at the end of 2019, compared to 29 companies at the end of 2018 (reduction in the number of insurers is due to the withdrawal on request, following the voluntary liquidation, of the FATA Asigurari company);
- **Insurance brokers**, counting 287 intermediaries, at the end of 2019, decreasing compared to the end of 2018, when 295 principal intermediaries were registered (the decrease of the principal intermediaries is due mainly to the requested withdrawal of the authorization and of the temporary suspension of an activity; in 2019 a principal insurance intermediary was authorized);
- **Bureau of Romanian Motor Vehicle Insurers**;
- **Policyholders Guarantee Fund**;
- **Financial and IT auditors**: at the end of 2019, 9 financial auditors were approved on the insurance market. At the end of 2019, there were 5 individuals and 16 legal entities on the list of IT auditors approved by FSA.

Moreover, **the following specialists are certified/approved on the insurance market:**

- **Lecturers**, counting 152, compared to 127 readers at the end of 2018;
- **Claims adjusters**, counting 992 compared to 939 at the end of 2018;
- **Providers of educational programs**, counting 24.

In 2019, **247 individual acts (decisions, endorsements)** were issued which, according to the object of the individual acts, mainly concerned the following:

Approval of the management structure members	85 individuals acts
Changes to the share capital of the insurers	14 individuals acts
Amendments of the articles of incorporation	65 individuals acts
Withdrawal upon request (following the voluntary liquidation)	1 individual act
Financial auditor endorsement	1 individual act
Procurement projects	2 individuals acts
Activity extension for practicing new insurance classes	1 individual act
Activity extension based on the freedom to provide services on the territory of some EU Member States	1 individual act
Status amendment (FGA and BAAR)	2 individuals acts
Patrimony redistribution	1 individual act
Establishing the main intermediary	1 individual act
Lecturers endorsement	25 individuals acts
Approving the claims adjusters	53 individuals acts

According to the Art. 148 of *Directive 2009/138/EC of the European Parliament and of the Council dated 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II)* and paragraph 3.2.1 of III in the *Supervisors' Decision on cooperation between authorities supervising insurance - EIOPA-BoS-17/014*, FSA registered **71 notifications of the intention of some companies in EU Member States to carry out an insurance activity based on the freedom to provide services, namely based on the freedom of establishment.**

In the intermediation activities, **257 notifications were managed, received from the supervisory authorities of the EU Member States regarding the intention of some insurance intermediation companies to carry out the insurance intermediation activity within the Romanian territory, based on the freedom to provide services, namely based on the freedom of establishment,** according to the Art. 4 and/or art. 6 of *Directive (EU) 2016/97 of the European Parliament dated January 20th 2016 on insurance distribution.*

Authorisation - endorsement in the financial instrument and investment sector

The authorization-monitoring activity must be seen as a primary stage in the broader perspective of the supervisory entities operating on the capital market. In carrying out the authorization-monitoring activity, it was considered the strategic objectives of the FSA regarding the approach based on prevention, namely assess the adequacy of the management structures and of some persons designated in key positions of the institutions on the capital market.

Once the *Law no. 126/2018 regarding the financial instruments* entered into force, a new approach to the process was imposed regarding the evaluation process of the organizational structure for the regulated entities (by introducing the need for collective evaluation of the management structure). In addition, we mention that through this normative act it was established as a task for the regulated entities the obligation to align with the new requirements for reconfiguring the personnel from the perspective of the services and activities foreseen by the investments carried out (providing information or consultancy).

One of the aspects marking 2019 was represented by the completion of the alignment of Depozitarul Central SA with the provisions of the *Regulation (EU) no. 909/2014 of the European Parliament and of the Council dated July 23rd 2014 on improving securities settlement in the European Union and on central securities depositories and amending Directives 98/26/EC and 2014/65/EU and Regulation (EU) No 236/2012* and of the technical standards issued in its application, ensuring in this regard a close collaboration between the FSA and the relevant competent authorities, namely the National Bank of Romania and the ECB.

Moreover, in the sphere of collective investment schemes, taking into account the legal regulations that established the commitment of the entities regarding their provisions, during 2019 the following significantly activities took place in this country:

- continuing the process of aligning the IMC and the collective investment schemes to the provisions of *Law no. 29/2017 for the amendment and completion of the Government's Emergency Ordinance no. 32/2012 on undertakings for collective investment in transferable securities and investment management firms and amending and supplementing Law no. 297/2004 regarding the capital markets*;
- continuing the process of aligning the collective investment undertakings to the provisions of *EU Regulation no. 2365/2015 on the reporting and transparency of financing operations through financial instruments and EU Regulation no. 1131/2017 on market funds money*;
- continuing the process of aligning the IMC and the collective investment schemes to the provisions of *FSA Regulation no. 2/2019 for the amendment and supplementing of some normative acts*;

These processes were completed through the analysis by the FSA of the related documentation and by issuing individual acts, following the request for authorization sent by the IMCs, namely the analysis of the information and the FSA-sent documents.

The main authorisation/endorsement operations carried out by FSA during 2019 regarding the capital market entities were:

Capital market entities	The operations carried out by FSA during 2019
INTERMEDIARIES (Investment firms - IF and Credit institutions)	<ul style="list-style-type: none"> • authorization of new companies as an investment firm (Optimus Fintech SA); • withdrawal of the authorization for two investment firms; • deregistration from the FSA Public Registry of a credit institution: Bancpost SA, following a merger through absorption with Banca Transilvania SA; • the registration in the FSA Registry of 19 credit institutions, as well as the modification of the registration documents of 6 credit institutions in the sense of restricting/extending/updating the object of activity carried out, taking into account the provisions of <i>Law no. 126/2018 on the financial instruments</i>. Thus, at the end of 2019, in the FSA Registry, there were registered 25 credit institutions.
PERSONNEL WITHIN THE INTERMEDIARIES	<ul style="list-style-type: none"> • deregistration 358 persons who were agents of authorized financial investment services; • deregistration 601 agents delegated on behalf of the IF and their credit institutions; • registering 582 individuals as individuals providing the investment services (PFSC); • registration of 12 persons as tied agents (TA).
CAPITAL MARKET INSTITUTIONS	<ul style="list-style-type: none"> • requesting the approval of the modification of the components of the board of directors of BSE; • request the registration of BSE as manager of the non-significant benchmarks.
CENTRAL DEPOSITORIES	<ul style="list-style-type: none"> • authorization of the Central Depository as CSD based on EMIR; • approval of the Central Depository Code and of the Regulation to organise and function.
INVESTMENT MANAGEMENT COMPANIES (IMC)	<ul style="list-style-type: none"> • increase/reduction of the share capital, modification of the members of the board of directors/supervisory board, approving the intention of an individual to acquire the shares of some investment management companies, modification of the registered office, authorization of dissolution and establishing a secondary office, authorization of persons in key positions as representative of the compliance department, withdrawing the approval of some persons from the key position as representative of the compliance department, authorization of persons in key positions for managing the risks, withdrawing the approval of some persons in the key position of their risk management.

Capital market entities	The operations carried out by FSA during 2019
COLLECTIVE INVESTMENT SCHEMES	<ul style="list-style-type: none"> • registration and enrolment of 10 open-end investment funds; • deregistration of the Matador alternative investment fund, managed by the Atlas Asset Management SA SAI; • registering and enrolling 4 alternative investment funds; • the approval of the changes taking place in the documents of some collective investment schemes; • authorization requests, namely notifications of some IMCs regarding the changes taking place in the documents of the collective investment schemes they manage, upon their initiative; • approving the request of BRD Asset Management SAI SA to choose the following regulated stock exchanges / market in third states, in order to carry out investments according to the <i>Government's Emergency Ordinance no. 32/2012 on undertakings for collective investment in transferable securities and investment management firms and amending and supplementing Law no. 297/2004 regarding the capital markets</i>: New York Stock Exchange (USA), Nasdaq Stock Market (USA), Chicago Mercantile Exchange (USA), Chicago Board of Trade (USA), ICE FUTURES US (USA), Toronto Stock Exchange (Canada) and Tokyo Stock Exchange (Japan); • approving the changes in the depository contract, as well as changes in the articles of association of Fondul Proprietatea SA; • approving the request of the SAI Muntenia Invest SA by authorizing a change in the articles of association; • approving the request of SIF Banat-Crişana SA by authorizing a change in the company's articles of association; • approving the request of SIF Moldova SA by authorizing a change in the articles of association of the company, following a decrease in share capital.
ALTERNATIVE INVESTMENT FUND MANAGERS	<ul style="list-style-type: none"> • authorisation and registration of 16 AIFM as alternative investment fund managers.
DEPOSITORS OF THE COLLECTIVE INVESTMENT SCHEMES	<ul style="list-style-type: none"> • withdrawing, upon request, a depository status for the Bancpost SA.
INVESTMENT CONSULTANTS	<ul style="list-style-type: none"> • Authorising 3 new individuals as investment consultants; • withdrawing the licence, upon request, of two individuals.
IT SYSTEM AUDITOR	<ul style="list-style-type: none"> • registering 2 IT auditors.
FINANCIAL AUDITORS	<ul style="list-style-type: none"> • endorsement for a new financial auditor.
GROUPS OF THE COMPANIES ADMITTED TO TRADING	<ul style="list-style-type: none"> • registration of the changes taking place within the OMV Petrom group.

Capital market entities	The operations carried out by FSA during 2019
PROFESSIONAL TRAINING BODIES	<ul style="list-style-type: none"> requesting the Romanian Banking Institute to certify as Professional Training Body to organize professional training programs for individuals who are subject to the authorization process in other capacities on the capital market.

Free movement of services

In the context of international activities carried out on the capital market, we note that in 2019 there were several notifications sent by the competent authorities of the Member States, based on the provisions of *Directive 65/2014/EU of the European Parliament and of the Council dated 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU (MiFID II) and of Regulation (EU) 2017/2382 laying down implementing technical standards with regard to standard forms, templates and procedures for the transmission of information in accordance with Directive 2014/65/EU and of Commission Delegated Regulation (EU) 2017/1018 supplementing Directive 2014/65/EU on markets in financial instruments with regard to regulatory technical standards specifying information to be notified by investment firms, market operators and credit institutions related to the investment firms (IF) and credit institutions that intended to operate on the territory of Romania on the basis of the freedom to provide services or by setting up branches. Thus FSA proceeded to the registration in the Public Registry of a number of 108 investment firms and credit institutions, to the deregistration of 64 entities that are part of the categories of entities previously mentioned, namely to the update of the registered information in the case of 39 investment firms and credit institutions. Also, following notifications sent by the competent authorities of other Member States in accordance with art. 34 (4) of *Directive 65/2014/EU*, FSA proceeded to update the information registered in the Database regarding the changes in the contact data, as well as those relating to the legal representatives of the above-mentioned entities. FSA published on the website updated lists that included services and investment activities that tied agents of investment firms carried out in Romania, based on the free movement of services.*

Regarding the branches established on the Romanian territory by the investment firms and credit institution of Member State notified to the FSA by the competent authorities of the Member States, based on *Directive 65/2014/EU*, we mention the fact that, in the reference interval, no changes of the growth / numerical restriction of registrations within the FSA Register occurred.

On the other hand, with regard to the investment firms from other Member States that have carried out investments services and activities and ancillary services in Romania, based on the freedom to provide services, through a tied agent located in the country, we mention that, following the notifications sent to FSA in 2019 by the competent authorities of other Member States, **FSA deleted from the Registry the tied agent of the following investment firms:** Akcenta CZ AS, Cronos Ares Partners SRL and Rodeler Limited.

Moreover, during the analysis, 8 system operators in other Member States were deleted from the FSA Registry and were included 18 multilateral trading systems (SMT) and 25 organized trading systems (SOT) in the Member States operating in Romania, based on the free movement of services, the specific operations necessary to facilitate an intermediary in Romania the access / connection and remote trading to alternative systems through alternative trading managed by them.

From the point of view of the cross-border activity of investment firms registered in the FSA Register, we mention the fact that, in 2019, SSIF Tradeville SA and SSIF BRK Financial Group SA requested to freely provide investment services and/or to carry out free investments activities, as well as ancillary services in the territory of four Member States, according to the applicable

incident legislation.

Thus, at the end of the year, there were **8 investment firms that notified FSA of their intention to provide investment services and activities through the free movement of services, on the territories of other Member States**, namely: BT Capital Partners SA, Estinvest SA, IFB Finwest SA, Muntenia Global Invest SA, Blue Rock Financial Services SA, Vienna Investment Trust SA, SSIF Tradeville SA and BRK Financial Group SA.

Authorisation - endorsement in the private pension system sector

The activity in the field of authorization / endorsement in the private pension sector consisted in analysing the applications submitted by the entities in the private pension system framework and accompanying documents, as well as verifying the conditions, criteria and legal provisions in force. FSA carried out activities to resolve applications for authorization - approval following the compliance by entities and individuals of a specific condition and criteria, documents compliant with the applicable law, analysis and simulation of the authorization processes - approval while taking into consideration both the regulations specific for the private pension, as well as the common/integrated ones.

From the perspective of the organization and the functioning of the regulated entities that operate in the private pension market, FSA granted a special attention to the analysis and close examination of the issues related to corporate governance, so that all entities can implement the principles detailed in the FSA regulations correctly, fully and on time. Regarding the authorization of persons proposed by entities for the positions within their management structures or in order to exercise key-functions, the activity was focused on verifying the requirements and conditions foreseen in the regulations for each person, but also to minimize risks by evaluating the qualitative aspects within the organized interviews.

Following these processes, no contraventions were found in the supervision and control activity, nor were significant sanctions applied to the persons authorized by the FSA to carry out the activity in the private pension system.

During 2019, FSA issued 557 decisions and endorsements related to the private sector pension system, of which:

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- **125** decisions and endorsements regarding the applications by authorization/endorsement/withdrawal of authorizations/opinions to the managers, private pension fund, as well as amending documents that were the basis for their authorization/endorsement;
 - **432** decisions and endorsements regarding the applications by authorization/endorsement/revision/withdrawal of authorizations/approvals for the marketing agents, as well as the amendment of the documents that were the basis of their authorization/endorsement.
-

Moreover, FSA received **676 notifications sent by entities in the field of private pensions**, according to the legal applications in force. Of these, 156 were notified regarding the internal work procedures of managers/depositaries.



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Consumers protection, complaints handling and financial education



Protecting the non-banking financial services and products consumers

Consumers of non-banking financial services and products submitted **26.911 complaints in 2019**, of which approximately 83% represented cases that required analysis and instrumentation. Most of these notifications, namely 86%, were made electronically, by e-mail and through the online portal.

From the instrumentation and handling of the complains related to the 3 sectors on the FSA activity, in 2019, certain deficiencies/incorrect practices were identified in the activity of the monitored entities, reason why FSA continuously monitored and coordinated their settlement, establishing the necessary measures for their rectification.

In the context in which most complaints concern the insurance sector, FSA carries out an extensive **monitoring process of the insured-insurer relation, as well as of the compliance degree for the insurance products with the needs of insurance consumers**. Furthermore, FSA contributes to the rapid collection of data on the tendencies of the consumers at European level by reporting information to EIOPA and ESMA.

Measures undertaken:

Meetings with the insurers to clarify some aspects related to the case solving

Granting audiences to the petitioners

Cooperation with other authorities or national bodies and international bodies for solving some cases

FSA continuously monitored the evolution of the consumer tendency and the behaviour of the entities by:

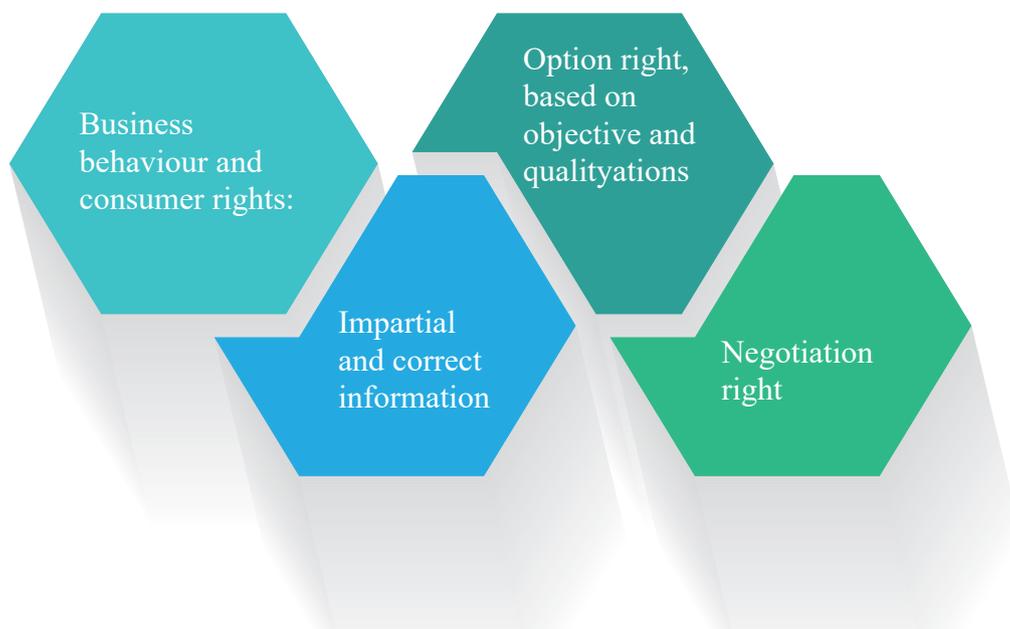
- periodic statistical analysis related to the complaints, in which quantitative and qualitative aspects relevant to the activity are emphasised for the protection of the consumer, highlighting the potential deficiencies identified in solving and instrumenting the complaints registered with the FSA;
- regular statistical analysis related to complaints drafted on the basis of reports submitted by insurers / intermediaries, highlighting measures taken by the entities that led to the reduction of the complaints, but also of the causes that induced their increase, mentioning the measures considered for their rectification;
- quarterly analysis of the payment period and settlement of the claims files open with the insurers based on the compulsory MTPL car insurance agreements. Within this analysis there are monitored two indicators emphasising the time framework within which the insurers pay the claims to the injured parties, namely settle the claims files, namely:

Average payment period of the claims files, reported to the legal payment term of the compensation foreseen by the MTPL legislation

Average duration of solving the claim file, reported as appropriate, depending on the applicable law

FSA developed **specific indicators for the insurance consumers protection**, depending on the number of complaints registered with the FSA, allowing for the analysis of the position of each entity in relation to the market level.

The analysis of these indicators allows the entities to be classified by conformity grades, established in relation to the market reference level, the correspondence of the provided products with the consumers needs, the behaviour of the entities in the instrumentation and liquidation activity of the claim files and solutions adopted in the claims files with the legal / contractual provisions.



Data on distribution of complaints registered at FSA in 2019

Monitored market	Total number of registered complaints	The weight of the registered complaints for the activity domain in the total of the registered complaints
Insurance - reinsurance	25,679	95.42%
Private pensions	1,011	3.76%
Instruments and financial investments	221	0.82%
Total petitions	26,911	100.00%

The following **types of petitioners** submitted complaints in 2019:

- natural or legal persons who submitted complaints on their own: 59.32%;
- proxies / law firms, service units that submitted complaints based on mandate agreements, debt cessation and power of attorneys granted by the injured persons: 36.53 %;
- National Authority for Consumer Protection, other associations and consumer protection foundations: 1,64%;
- other entities: 2,51%.

In 2019, a percentage of 61.14% complaints were submitted by individuals, and 38.86% were submitted by legal entities.

Of the total complaints received in 2019, a number of 21,932 were entered uniquely per petitioner, and fell under the FSA competences, whereas 4,979 complaints were connected or classified, according to the provisions of Government Ordinance no. 27/2002 on the regulation of the complaints solving activity.

Regarding the complaint solving manner analysed uniquely in 2019, it results that **60.80% of the unique petitions (13.334 petitions) were favourable solved**, the aspects notified by the consumer/petitioner being confirmed and 39.20% (8,598 complaints) have been unfavourably resolved or were considered unfounded.

On the insurance market, the share of the favourable petitioners in the total number of single complaints analysed, was of 59.05% (namely 12,305 petitions). Of these, most were completed by payment, the requests having the legitimacy and the legal framework to be solved. The share of unfavourable/unfounded complaints in the total number of complaints was 40.95%, namely 8,532 complaints (opening a claim file, re-acknowledgment, sending the payment consent to the service units etc.).

In the private pension sector, in the total number of complaints uniquely analysed, 911 complaints (96.10%) were favourably solved – to these could be established favourable solutions, legally based. 37 petitions were unfavourably resolved or considered unfounded.

On the capital market, in the total number of complaints uniquely analysed, 118 complaints (80.27%) were favourably solved, and 29 complaints were unfavourably resolved or found to be unfounded.

Monitoring and financial education

The financial education activity of the Authority was launched in 2015, by approving the *FSA Financial Education Strategy for the period 2015-2018* and setting up an organizational and dedicated structure. In 2019, it was approved the *FSA Financial Education Strategy for the period 2019-2023*, continuing the objectives established before and the national programs carried out, addressed to all typological categories of target groups (children, adolescents, adults, trainers). The Authority thus complies with the European Parliament's resolution from 2012, which establishes that the EU needs to put sustained effort to remove the barriers to the functioning of the single market, in this context being extremely important the financial education (*financial literacy*), including from the perspective of financial inclusion. As well as the provisions from 2015 of the European Commission calling forth art. 165 of the *Treaty on the Functioning of the EU*, which foresees that Member States are responsible for the education regulation, and consequently, of the financial education.

For the protection of consumers of non-banking financial products, services and instruments, strengthening their trust, developing the markets by ensuring a sustainable consumption and ensuring financial stability, **financial education program and measures were intensified in 2019** compared to previous years. The financial education is a long-term process, whose results have an impact that will be found at the level of increasing the population's wellbeing and lowering the financial exclusion level.

The financial education activity of the authority was launched in 2015, **by signing a protocol with the Ministry of National Education**, from which it continued to form, over time, the financial education program.

The FSA strategy for the financial education is based on 4 main directions, depending on the target group and the objectives pursued, namely: pre-university, university, adults, and trainers.

During this period, FSA ensured continuity and development at national level of its programs, ensuring a large number of collaborators and participants in them.

The programs dedicated the pre-university environment

The programs dedicated to the pre-university environment are the most developed, having the largest geographical cover of all FSA financial education programs. A wide range of logistical measures and considerable administrative efforts are involved in their development and administration.

FSA programs dedicated to the pre-university environment during the 2018-2020 period

Programs and the FSA financial education actions carried out in the academic year:	No. of children
2018-2019	22,488
2019-2020*	94,620

* data for the academic year 2019-2020 are estimated/partial

The most important measures and programs developed by FSA about the period in the field of financial education are described below.

Let's talk about the non-banking financial market!

Let's talk about the non-banking financial market! is the FSA financial education program intended for pre-university education, started in 2015 from the desire to contribute to achieving the most important objective of the FSA referring to the consumer protection, youths being the future consumers of non-banking financial products and services. The general educational objectives of the program are the following:

- Increase the informing level of the pupils in pre-university education by providing basic, relevant and independent information;
- Developing the skills of the target audience and awareness of the opportunities and financial risks;
- Ensuring a better understanding of the main characteristics of financial products and services regulated by the FSA;
- Increasing the horizon of public-target's choices as consumer and ensuring that the choices made are in perfect accordance with their expectations and selling needs;
- Creating a starting point in establishing a general financial culture;
- Participating in the improvement of the level of educational knowledge in the gymnasium education program.

The continuation of the program, established by the FSA financial education strategy for 2019-2023, was welcomed by the regulated entities with a positive response, being observed an increase of over 260% of the number of volunteer lecturers with whom the new 2019-2020 academic year began.

During the program, occasionally, other activities were added to support the activities Global Money Week (WWW) and World Investors Week (WIW):

- ***The bell rings for BSE!*** is a biannual event, on the occasion of GMW and WIW, ever since March 2015. The event takes place as an educational session, by opening a stock exchange by a group of pupils and organising an educational game.
- ***Be smart!*** is a type of action (learning through play) aimed at children aged 10 to 15, through which they learn about money management and risks. It is organized on weekends, holidays or during the "Different school" programme.
- In March 2016, it was begun also a component of the program dedicated to kindergarten or elementary school children - ***We play and learn!***. This component is organized occasionally and is developed on learning through play and drawing.
- In September 2019, the action ***First Day of School*** represented by distributing to the 1st grade (7,362 children) the financial education story of FSA and a brochure dedicated to children, being distributed in 68 schools in Bucharest, Braşov, Oradea and Iasi.
- In the 2017-2018 academic year, at the request of "Nicolae Kretzulescu" Higher Commercial School in Bucharest (economic profile), **an extensive pilot program of financial education** has been carried out. It was made up of 3 modules: the general module with 4 hours, an in-depth module with 10 hours and an internship, between the modules, tests being organised. In the 2019-2020 academic year, this program was extended, being offered to all economic high schools in Bucharest. There were 2 schools: "Nicolae Kretzulescu" Higher Commercial School and "Virgil Madgearu" Economic College.
- A special type of event was the organization of several **debate sessions on financial issues**. This type of action was also retained by the IOSCO report on WIW as a special one. The debate teams

were formed with high school pupils, under the coordination of the Ardor Romania, a non-profit organization coordinating such educational measures. Several such competitions were organized in several cities.

- In March 2019, FSA launched a “challenge” to the regulated entities to organise together across the country an Open Gate Week. On this occasion, the groups of students from the designated schools by the school inspectorates visited the headquarters of the entities (including FSA), interacted with their personnel, being explained financial notions.
- In March 2019, the **Education Bus** was organized in Bucharest, an event within GMW, which meant the organization of some educational tours in Bucharest, for several groups of students.
- Carrying out the pilot program on the **e-learning** platform through 2 educational establishments. With the support of a group of teachers from ASE-Bucharest, an electronic application (game/ask and learn) was applied, which was tested in May 2019.
- **Urban Camp** is a concept developed by FSA, unique in terms of financial education in Romania. The first edition of the camp was organized in June 2018 (with 34 participants), and the second edition in June 2019. At the second edition we invited and participated together with National Bank of Romania, MPF and ARB. During the **Urban Camp** in 2019, 38 students (aged 10 to 13) learned, in addition to basic notions related to the financial market, how to manage, invest and save money.
- In partnership with the **Ministry of National Defence**, FSA carried out a financial education program supported in all schools in the pre-university and university education of the ministry. In addition, the program was complemented by the participation and support of financial education activities within the **Ministry of National Defence Camp** (July 2019).
- In December 2019, FSA participated in the "**Alandala**" **Festival** dedicated to children, organized at Romexpo. During this festival, in the space dedicated to FSA, educational games were organized, children were offered lessons and explanations. The festival received during the 3 days children from several cities (for example, on Fridays they participated in the school festival in other city locations, on a trip to Bucharest by bus).

In 2019, the financial education activity dedicated to children in the pre-university environment experienced a significant increase compared to previous years, increase in terms of both quantity and quality (measures from the perspective of diversification and a way to approach).

TTT (train-the-trainer for Let's talk about the non-banking financial market!)

The **TTT** (train-the-trainer) program is a training for volunteering lecturers who participate in supporting the program *To talk about the non-banking financial market!* addressed to gymnasium and high school pupils. With the support of volunteer lecturers, this program became a national one.

The program received a positive feedback from pupils and schools (teachers, educational management units, questionnaires before and after the program) and became a stable one. For its development at the spread in as several cities and schools, an appeal was addressed to all regulated entities for the participation with lecturers (volunteers) in this program.

During 2016-2019, 470 volunteering lecturers expressed their desire to participate in this program (FSA lecturers are not included).

In addition, compared to the voluntary lecturers of the regulated entities, the professors of the Department of Finance at the University of the West in Timișoara and those at the "Vasile Alecsandri" University in Bacău are, voluntarily, lecturers in this program. Increasing the number of volunteering lecturers at the beginning of the 2019-2020 academic year was a significant and surprising one, showing the appreciation of the entities compared to the FSA's efforts in the field of financial education.

Be smart in traffic!

The Be smart in traffic! program - addressed to children - derives from the FSA obligations foreseen by art. 126 of the Government's Emergency Ordinance no. 195/2002 regarding the traffic on public roads, with the subsequent modifications and completions, which stipulates as obligatory the development of road prevention programs: art. 126. - The Insurance Supervisory Commission, together with the traffic police, draws up road safety programs and guides, coordinates and controls their application manner. The funds needed to carry out these programs are assured by the Insurance Supervisory Commission together with the authorized insurance companies.

The program was carried out in September - October 2017 (first edition) and September - October 2019 (second edition). FSA drafted an educational brochure, with a content dedicated to children to educate them regarding the rules related to road safety (as pedestrian, participant in traffic with roller-skates or bicycles). It was then printed in collaboration and support of the Romanian Police, BAAR, UNSAR, FGA. The distribution was made through the Romanian Police, throughout the country, being sustained also classed for the children's road education. The first edition (2017) involved the printing of 30,000 brochures, which were distributed to children in general school, and for the second edition (2019) 41,050 brochures were printed and distributed.

Program for teachers in pre-university education (*Start 2 Teach*)

The program addressed to teachers in pre-university education had as main objective the transfer of information specific to non-banking financial education for this typological category of target group in two perspectives (as consumer and as trainer).

START 2 TEACH

Program began in 2017. More than 100 teachers participated to this program in 2019.

Start 2 Teach is carried out with the support of the school inspectorates with which FSA signed collaboration agreements. The program, developed by FSA in partnership with the Institute of Financial Studies, is a short-term (3 hours) *train-the-trainer* type for teachers in pre-university education. The intensification activity of this program took place starting with 2018, because it was recognized the requirement to transfer the specific notions of non-banking financial education, considering the future discipline - *Economic and financial education* - for the 8th grade, which will become compulsory starting with the academic year 2020-2021.

Program addressed to the university environment (*Academic Laboratory*)

During 2015-2019, 17 university centres from all over the country became partners of FSA in financial education programs. The partnership consists in carrying out joint activities, on the one hand intended for students, on the other hand those carried out jointly, intended for other public categories.

In the category of activities for students we can list: organization of seminars and conferences, with specific presentations, on various topics, supported by FSA lecturers for students, faculties with various profiles (economics, finance, law, engineering, etc.) and student internships at FSA.

Also, in 2019, following a request from the Ministry of National Defence, FSA carried out a financial education program in all higher education centres of the Ministry.

Academic laboratory

In 2019, out of the 11,800 students participating in this program, almost 7,000 were present at 54 public events and meetings with FSA representatives at the Academic Laboratory.

In 2019, based on the good collaboration with the academic environment, the Romanian-American University (URA) Bucharest and the University of Economic Studies Bucharest (ASE) proposed to carry out scientific and research works: URA-Faculty of Marketing for conducting some research studies (Focus Group on consumer protection by non-banking financial services) and ASE - Faculty of Finance, Insurance, Banking and Stock Exchanges then conducted a research survey during the activity of "Researcher Night". These measures were carried out during the third quarter of 2019 and will be completed in 2020.

It is important to note that there has been an increase in the program addressed to the academic environment, existing a good collaboration with the university centres, which express their interest and need to participate in this program. Moreover, in 2019, besides the requests for internships received from students, there were also requests from doctoral students, who wanted to carry out internships and benefit through interactions with the Authority's experts.

Programs dedicated to adults

In 2019, several types of actions and programs dedicated to adults were carried out, according to the aimed objectives: **financial education, informing and awareness**.

Thus, several types of actions were differentiated:

- **PAD Caravan** - is an adult program that has the largest expansion (so far); 3 annual editions of this program were organized (PAD Caravan is organized in October); The PAD caravan in 2019 covered a national route of approximately 1,000 km, stopping in the following localities: Drăgășani, Râmnicu Vâlcea, Băile Govora, Horezu, Târgu Jiu, Baia de Aramă, Băile Herculane, Drobeta Turnu Severin, Băilești, Craiova, Roșiorii de Vede, Alexandria. The choice of this route was based on a very low degree of insurance coverage, i.e. maintaining a national information distribution (taking into account the routes in the previous edition of the PAD caravan);
- **FSA Guide Collection**: a set of publicly distributed materials (at certain public events, FSA headquarters, available electronically, distributed by partners) for information purposes: MTPL Guide, Green Card Guide, PAD Guide, Shareholder's Guide, Investor's Guide, Funds Investors Guide, 2nd Pillar Guide, 3rd Pillar Guide, Online Trade Guide for Non-Bank Financial Products, Consumer Guide to Know the Resolution, Recovery and Bankruptcy Instruments, Consumer Guide - Malpractice, FOS Insurance Guide, SAL-Fin Guide (the guide collection also included 2 related Astra and Carpatica guides);
- **Information and awareness actions on the street or at fairs**: FSA Tent, attending fairs and exhibitions, education and information actions in locations, Consumer Bus, information campaign on the Green Paper;
- In 2019, the second annual campaign **Be smart in traffic!** was organized, to promote preventive driving and financial education related to financial non-banking services and products related to the motor vehicle domain, according to the legal attributions that accrue to FSA, these being organized together with the Romanian Police and with the support of FGA, BAAR, UNSAR;
- Participate in online communication related to information, education and accountability of the adult population toward road accidents resulting in human casualties. Thus, at the UNSAR proposal, FSA participated to **The 40,000 campaign** - <https://asiguropedia.ro/cei-40000/>. UNSAR and 16 partners (including FSA, Romanian Police, FGA, BAAR, UNSICAR, PRBAR, IFS and

others) supported this online campaign aimed at reducing the victims of road accidents;

- **Conferences, seminars and courses, other participations;**

- Providing educational information and bank statements and the possibility to register the IBAN offered free of charge by the **Central Depository**, partner of FSA within WIW and GMW, the events being mediated with FSA press releases and online;

- The annual organization of the **EduFin Gala** (so far 3 editions were organized, this unique event in Romania becoming a reference element for FSA and the financial market). Upon the occasion of the EduFin Gala, not only the financial education is celebrated, but also the efforts of all the actors and people involved in this field. Through this event it is shaped a sustainable partnership between the Authority, the financial market, the Romanian education system, and the civil company, with **the sole objective of increasing the level of financial education in our country.**

Involvement in international campaigns

Since 2015, FSA has organized financial education activities for the celebration of *Global Money Week (GMW)*, international event for supporting the financial education for children and youth initiated by *Child & Youth Finance International - CYFI* (starting with 2020, GMW will be supported and coordinated by the OECD). Each year the number of events and measures organized by FSA under the auspices of GMW increased, namely of participants.

Compared to FSA's participation in GMW events, it is worth mentioning that Romania has won the grand prize for financial education projects carried out at national level in 2016 by the Financial Supervisory Authority, the Ministry of National Education and the National Bank of Romania. The award was given by the *Child & Youth Finance International (CYFI)*, one of the largest financial education international organization. Obtaining the first in the country prize by FSA and its partners came as a result of an activity undertaken during the events organized by the *Global Money Week*. Romania was designated the winner of the CYFI Country Award category, in which five awards were granted, one for each region in the world.

Following the recommendations provided by the European Union that the Member States support the financial education, in 2019, for the fifth year in a row, FSA continued to celebrate GMW through national programs and campaigns, promoting the country on the international level and joining the national efforts for financial education support. Programs dedicated to the pre-university, university and adult environment have been organized in several cities in the country.

In the third quarter of 2019, FSA started the organization of activities dedicated to Financial Education supporting the IOSCO-WIW initiative, for the third consecutive year. Thus, FSA's efforts in the field of financial education are part of a series of international events. WIW was celebrated in October, FSA addressing through programs both to the adults as well as the children, popularizing the importance of the international event.

Moreover, FSA actively participated in the *Technical Assistance for Financial Education* program funded by the Dutch Ministry of Finance and in meetings of the **INFE** group, representing Romania and made every effort to build a national strategy through financial education in Romania.

Other measures with an impact on education in 2019

The interest in the online section of the FSA in terms of financial education is still a growing trend, the institution being active on social media (Facebook), where it permanently interacts with consumers of non-banking financial services.

Guaranteeing mechanisms

- 1 | Supervision activity of the **Romanian Motor Vehicles Insurers Bureau (BAAR)**, according to the legal provisions in force, in order to constantly fulfil the tasks of vehicle national bureau, damage payment body and compensation body

FSA analysed and approved the revenue and expenditure budget of BAAR, as well as its execution and approved the contribution level, membership fees and management tax for the database with the MTPL agreements, according to the provisions of the legislation in force. FSA analysed the annual financial statements of BAAR, as well as the report of the financial auditor.

In addition, FSA permanently monitored the availability level of the national protection Fund administrated by BAAR, based on reportings received from BAAR, in order to verify the compliance with the legal limits.

- 2 | Supervision activity of the **Romanian Policyholders Guarantee Fund (FGA)** according to the legal provisions in force, in order to protect the insurance creditors from the consequences of the insurers' insolvency

In 2019, FSA analysed, the following FGA reports:

- The situation regarding the payment of the compensations/damages made by the Fund to the Insurance creditors of the bankrupt insurer - monthly;
- The Fund's financial resources statement - monthly;
- Execution of the revenue and expenditure budget - quarterly;
- The situation of the contributions due and paid to Fund by the insurers, separate from the general and life insurance - quarterly;
- Annual financial statements, annual activity report - annual.
- FSA analysed and approved the annual financial statements and the annual report on the activity of FGA for 2018.

Considering the provisions of *Law no. 213/2015 on the Policyholders Guarantee Fund*, the FSA Council approved the Resource Investment Strategy of the FGA.

FSA analysed the projects for the Regulation related to the Organization and Functioning and Status revised by FGA, as part of the implementation of the actions decided by FSA. Certain non-compliant issues were identified and communicated to the FGA to be corrected.

3 Supervision activity of the **Investors Compensation Fund (ICF)** for the purpose of protecting the capital market investors

The Investor Compensation Fund (FCI) is a joint-stock company established in June 2005, authorized by the National Securities Commission based on *Law no. provisions. 297/2004 on the capital market*, with subsequent amendments and completions, aiming to compensate investors if the FCI members cannot return the funds and/or financial instruments owed or belonging to the investors, held in their name, as concerns the provision of financial investment or individual investment portfolio management services.

Intermediaries authorized to provide financial investment services (investment firms and credit institutions) and investment management companies (IMCs) that manage individual portfolios through investments must contribute, according to the legal provisions, to the Investor Compensation Fund.

Annually, in January, the FCI submits to the FSA approval the strategy on the financial exposure of the resources for the ongoing year. In addition, in the first part of the year, the FCI shall report the level of annual fees set by the FCI Board of Directors for the ongoing year, to verify the compliance with the applicable FSA regulations and the FCI regulations approved by the FSA. The contributing situation of the changes and transfers by FCI members is presented later.

The auditor's annual financial statements and financial statements, as well as quarterly financial reports, are subject to the FSA analysis. Quarterly, it was analysed the accounting reports, the execution of the revenue and expenditure budget, reports on the FCI's investments and the situation of the resources available for compensation and own resources, as well as the situation regarding the payment of compensators granted to investors. In August, the periodic audit of the control for four years was concluded, following which certain aspects were identified for which an institution that is committed to the FCI has the obligation to implement remedial measures. Prudential measures aimed at updating internal procedures, reviewing policies and the system of improvement through internal control and risk management.

The Investor Compensation Fund continuously informs market participants and investors about the specific indicators of the activity carried out and the calendar of events to compensate, when they take place.

In the first quarter of 2019, the Investor Compensation Fund completed the process of paying compensations in the case of Mobinvest SA, following a CFI ruling dated 13.12.2018, through which the Board of Directors approved the payment list for investors to be compensated - individuals, legal entities and entities without judicial personality, in the open compensation procedure for the company Mobinvest SA. The payment list included 55 investors, with an overall value of the compensations of 2,605,186.83 lei, of which 15 investors could be entitled to a 20,000 euros compensation (maximum compensable amount). The compensation of the investors of the company Mobinvest SA started following a final court decision.

Within the compensation process of the investors, FCI requested FSA to verify, together with the competent bodies, the persons mentioned in the payment list, in order to confirm their non-involvement in money laundering operations and / or subject to some international sanctions, according to the provisions of art. 36 alignment (3) in the *CNVM Regulation no. 3/2006 on the authorization, organization and functioning of the Investor compensation fund, with subsequent amendments and completions*. Following the verifications performed, all 55 by investors met the eligibility criteria regarding the compensation.

4 | Monitoring the activity of the **Private Pension System Rights Guarantee Fund (FGDSPP)** in order to protect the private pension system participants

According to the legal provisions in force, FGDSPP reported the following information to FSA:

- The internal audit plan approved by the Board of the Fund;
- The annual actuarial report approved by the Board of the Fund;
- The report with the internal audit missions and the report including the internal control activities - annually;
- Analytical verification Balance - quarterly;
- The situation regarding the financial resources of the Fund, the situation of the invested assets and the obligations of the Fund, the situation of the amounts used for covering the compensatory payments to the participants and beneficiaries, the detailed situation of an investment for activity of guaranteeing the rights in the private pension system- quarterly.

Annually, by May 31st, the FGDSPP sends FSA an activity report which must include information about the power regarding:

- Fund Management;
- Activity environment;
- Investment strategy;
- Actuarial methods used to calculate the annual contributions and the results of these calculations;
- Compensation for the loss of participants and/or beneficiaries;
- Information on ensuring the payment of the participants and beneficiaries' rights, in case of the impossibility to insure them by the managers;
- Information on the risk management, financial resources, audit and internal control, auditor's report and annual financial statements.

Moreover, the FGDSPP annually submits for the FSA approval the budget of revenue and expenditure for the following year, both in terms of its own revenue and expenditure, as well as activities related to revenue and expenditure by guarantee. Also, annually, FGDSPP submits to the FSA approval and strategy the resources related to the guaranteeing and management activity.

The budget and investment strategy for 2020 are already approved by the FSA.

During 2019, no deviations were identified from the objectives established by law regarding the activity of FGDSPP and the documents that were subject to approval by the FSA.



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International Cooperation



Cooperation at the European and international level

1 FSA participation in the European authorities activities (ESMA, EIOPA, ESRB)

European Securities and Market Authority (ESMA) and European Insurance and Occupational Pensions Authority (EIOPA)

In line with the strategic objectives assumed for 2019-2023, FSA contributed in 2019, as member of ESMA and EIOPA, to build a common supervision culture for the European financial sector, which will ensure financial stability and protect financial services consumers .

The contribution of the FSA within the two European authorities is reflected both at the level of the decision-making process within the meetings of the Board of Supervisors (BoS) and at the level of the process for drafting the working documents within groups and standing committees.

Involvement on the high and technical level of the FSA representatives in the development and harmonization at European level of financial policies, as well as in ensuring convergent mechanisms for the supervision of a financial European system offered our authorities the opportunity to know in depth the European requirements and ensure a regulatory and monitoring framework aligned with the European provisions.



As proposed in the strategy for 2019-2023, **FSA actively participated in meeting the objectives of ESMA which aimed at:**

- *Ensuring supervision convergence in the context of UK withdrawal from the EU:* relocation of UK companies to the EU27, contingency plans, co-operation manners between UK and the EU27 authorities.
- *Creating databases and their consistent use by drafting and clarifying further reporting methodologies:* strengthening and improving the experience gained from the action plan on data quality reported according to EMIR and extending it to other reporting regimes, especially according to MiFIR and AIFMD.
- *Promoting consistency in the application of MiFID II/MiFIR and obtaining a common understanding on how to address challenges which may arise in the supervision activity:* questions and answers (Q&A) drafting, guidelines and other convergence tools on authorization of investment firms, respecting the organizational and conduct requirements; opinions on position limits, transparency waivers and temporary suspension of pre- and post-transparency requirements.
- *Protecting the free movement of services in EU through adequate protection of investors in the context of cross-border service provision:* facilitating cooperation and coordination between competent authorities to ensure that product intervention works as an effective tool and for consistent application of national measures for certain types of transactions with contracts for differences (CFD) and binary options.
- *Ensuring convergence in supervisory activities related to financial innovation:* monitoring market developments; mapping current approaches to licensing and licensing of innovative models by member companies.
- *Ensuring a single regulatory framework:* drafting technical standards and technical advice for which ESMA received a mandate to draft secondary legislation.
- *Risk assessment consolidation activity:* developing data sources of the ESMA and their analytical exploitation.
- *Preparation for an effective application of the provisions of the new rules of operation of ESMA and EMIR 2.2.:* preparations for the implementation of the new provisions on the strategy for monitoring the identification of EU priorities, drafting the supervision handbook, conducting peer review exercises, conflicts interests, the proportionality Committee, etc.

Within EIOPA, FSA was involved in the development and discussion of the main topics, namely:

- *Drafting the Opinion on the review of some elements of Solvency II Directive (SII)* at the request of the European Commission: aspects regarding technical provisions, own funds, standard formula, calculating solvency capital requirements (SCR), minimum capital requirements (MCR)), proportionality principle, group supervision, cross-border activity, macro-prudential policy, recovery and resolution and guarantee funds.
- *Development and consolidation of the regulatory framework for consumer protection*: drafting the public consultation document on amending Regulation no. 653/2017 on Key Information Documents (KID) on PRIIPs (Packaged Retail Investment and Insurance Products); thematic analysis for a better understanding of the travel insurance product and for identifying potential conduct risks; opinion on the principles of remuneration supervision in insurance and reinsurance companies.
- *Sustainable financing*: opinion on the integration of climate risks related to the 1st Pillar aspect of the Solvency II Directive; carrying out an analysis of the resilience of the insurance balance sheet for the financial risks resulting from the transition to a low-carbon economy.
- *Drafting a set of methodological principles for carrying out stress tests for insurance companies*: using the previous experience for the consolidation of an improved methodological framework to give consistency and coherency to the future exercises.
- *The organisational and functioning elements of a European authority following the review of the European financial supervision (ESA)*: preparations for the establishment of the Committee on proportionality, provisions on conflict of interest, the establishment of internal committees/panels for managing cases of infringement and mediation.
- *Preparing for the UK's withdrawal from the EU (Brexit)*: preparing the insurance sector in the event of a Brexit without an agreement (hard Brexit) and other additional measures on contingency plans, drafting a series of recommendations on the application of a hard Brexit, in order to ensure a minimum degree of harmonization in approaching the authorities in the Member States.

In the context of Romania's having the EU Council Presidency in the first half of 2019, FSA organized in Bucharest, in line with the practice encountered at the ESMA and EIOPA level, high-level meetings of the two European authorities.

Thus, between May 22-23, 2019, FSA hosted the *ESMA Away Day* meeting in Bucharest and the meeting of the Management Board (MB) and of the Board of Supervisors (BoS). *Away Day* is a meeting dedicated to BoS members and alternates at which ESMA's strategic measures on certain topics can be discussed.

Moreover, on May 16th and 17th 2019, FSA organized the *EIOPA Strategy Day* at the Bucharest meeting. The event, which benefits from the participation of BoS members, aimed to provide a favourable framework for some informal discussions on the main strategy lines of EIOPA's activity, which are subsequently developed at the BoS level and implemented at group level of the European authority.

European Systemic Risk Board (ESRB)

As a permanent non-voting member of the ESRB, FSA contributes to the activity of the General Board (GB), as well as that of the working group.

As in previous years, the working program of the ESRB for 2019 focused on carrying out reports on the financial stability at the European level and the risks assessment at the level of financial entities and the market, namely the report on risks, trends and vulnerabilities in the European financial sector, methodologies for risks estimating, the risk dashboards, annual report on the sovereign risks, etc.

2 FSA participation at the international level

As member, FSA contributes to the organization of the appropriate international organisations: IOSCO, IOPS and IAIS. Although the involvement of FSA is limited, the participation of the authority allows for the presentation and reflection of experiences and challenges which the small markets face, such as the Romanian one, as well as the FSA familiarity with the drafted standards and international best practices.

International Organization of Securities Commissions (IOSCO)

The most debated topics, at the IOSCO level, in 2019, focused on: sustainable financing (identification of challenges and drafting recommendations); financial technology (discussions on related issues and risks; regulatory consideration of cryptocurrencies trading platforms); fragmented market (analysis of the size, its causes and implications; measures that can be taken to mitigate the adverse effects).

International Organization of Pension Supervisors (IOPS)

In 2019, IOPS focused on analysing the impact of digitalisation on the functioning of the private pension system, and on developing recommendations for supervisors to strengthen supervision based on the risk of a private pension scheme and supervision of investments in complex products.

As a recognition of the contribution to IOPS activity, FSA was re-elected in November 2019 for a two-year term (2019-2021) as a member of the IOPS Executive Committee.

International Association of Insurance Supervisors (IAIS)

At IAIS level, work has focused on the completion of the Common Framework (ComFrame) for the supervision of internationally active insurance groups (IAIG), which is a set of international requirements for effective supervision. In addition, steps have been taken to draft a set of International Capital Standards (ICS) that could have an impact on the Solvency II regime.

3 Collaboration with the World Bank (WB), International Monetary Fund (IMF), European Commission (EC), European Bank for Reconstruction and Development (EBRD)

FSA continued in 2019 the dialogue with the European Commission and the international financial institutions (WB, IMF, EBRD) on the evolutions of the Romanian non-banking financial market and for joint projects.

World Bank

FSA and WB continued the regular dialogue on the projects that FSA carried out in order to align with the objectives of the EU Capital Markets Union(CMU).

In 2019, the WB made 3 visits to the FSA headquarters to complete the project on strengthening the supervision of the issuers transparency requirements, which benefited from European funding through the Structural Reform Support Program (SRSP). The aim of this project was to review the internal framework oversight for an adaptation of internal procedures to a risk-based approach.

In August 2019, the WB carried out a visit at the FSA headquarters to discuss the possibility of cooperating in the future within other projects supporting FSA in achieving strategic objectives.

The European Commission

Communication with EC focused on joint projects carried out through the SRSP program, as well as in the context of the European Semester.

For their smooth development, EC was involved in projects funded by the SRSP program that took place in 2019 (the project on strengthening the issuers transparency requirements, the project on insurance market conduct supervision and the project on solving inactive accounts). In addition, the communication continued for the elaboration and submission by the FSA of a new request for funds for the FSA's priority strategies in the context of a new session for project submission.

The discussions between EC and the FSA took place also in the context of the European Semester, consultations existing in February 2019 to check the accuracy of the information contained in the 2018 report before publishing it. In October, EC visited FSA in order to prepare the report for 2019, EC being interested in the development of the markets regulated by FSA, with a focus on changes within the private pension system framework and on the status of the insurance market. The European Semester is the instrument through which the EC ensures a framework for the economic policy coordination of the EU Member States, by carrying out an annual analysis, and by issuing recommendations specific to each country for the upcoming period.

International Monetary Fund

In the context of the mission carried out in Romania to achieve the annual analysis of the economy, known as the Article IV Consultation, the IMF representatives met with FSA to discuss the evolution of the 2nd pension Pillar and the progress on the other market regulated by FSA. The report published in August by the international financial institution captures the economic situation as well as the prospects for developing the economy, without mentioning a significant aspect related to the three markets monitored by the FSA.

European Bank for Reconstruction and Development

The cooperation with the EBRD in 2019 was related closely to the bank's involvement in the project on solving the issue of inactive accounts, highlighted in section 1 of the Central Depository, belonging to the individuals who have gained shares following the Mass Privatization Program. Both during the two visits carried out in April, namely September at the FSA headquarters, as well as through a permanent communication, the two institutions analysed and discussed the situation of these accounts from an economic and legal point of view, as well as possible solutions which can be addressed to solve it. The project, completed at the end of the 2020 1st half, provides details about the necessary regulation framework and the measures that the Romanian authorities must implement to solve this issue.

The dialogue with the EBRD continued and, in the context of preparing the Country Strategy for the period 2020 - 2025, the consultations being carried out also during the framework meetings between the representatives of the two authorities in November 2019.



Participation in the negotiation files while holding the Presidency of the EU Council

The first half of 2019 was marked by the period while Romania exercised the presidency of the EU Council, paying special attention to the completion of inter-institutional negotiations in order to adopt the legislative files.

FSA has helped to ensure the continuity of the decision-making in the non-banking financial sector. At the authority level, internal working groups have been set up for each of these legislative dossiers in the negotiated competence field, which would contribute to the drafting of documents and to participate in the meeting and trialogues organized in Brussels and Strasbourg. Thus, in the first half of 2019, the FSA experts participated in 37 meetings of the working group, the 32 political trialogues and 41 technical trialogues to finalize the negotiations.

In addition, FSA appointed a representative for the position allocated to the Permanent Representation of Romania in Brussels, which managed, as dossier president, the activity of five working groups during the Presidency. The other Six representatives of FSA, as dossier vice-presidents, ensured the coordination of the negotiations for the legislative dossiers: EMIR REFIT (*Amendment of the EMIR Regulation*) and EMIR CCP Supervision (*EMIR Supervision of Central Counterparties*), PEPP (*Pan European Personal Pension Product*), MID (*Amending Motor Insurance Directive*), Prudential Requirements for Investment Firms, CBDF (*Cross-Border Distribution of an Investment Fund*) and the Participative Financing (*Crowdfunding - Participative Financing for Enterprises*).

In this context, 9 legislative dossiers were closed, out of the 11 points in the non-banking financial area that took over until January 1, 2019 from the Austrian Presidency. The legislative dossiers negotiated were:

- ***The Pan European Personal Pension Product*** - offers advantages for depositors and opportunities for providers through pension plans - *dossier completed during the Romanian Presidency and published on July 25th, 2019 in the Official Journal of the EU;*
- ***Prudential Requirements for Investment Firms*** - revises the prudential framework for investment firms - *dossier completed during the Romanian Presidency and published on December 5th, 2019 in the Official Journal of the EU;*
- ***SME Financing through Capital Markets*** - aims to facilitate market access through capital market for small and medium enterprises (SMEs) at lower costs - *dossier completed during the Romanian Presidency and published on December 11th, 2019 in the Official Journal of the EU;*
- ***Sustainable financing*** - establishes the application field, terms and definitions, transparency requirements that must be met by the financial market participants - *dossier completed during the Romanian Presidency and published on December 9th, 2019 in the Official Journal of the EU;*
- ***EMIR Supervision of Central Counterparties (CCP)*** - introduces amendments on the authorization and supervision of CCPs established in the EU, equivalence of CCP regimes in third countries, the status of the European Central Bank (ECB) - *dossier completed during the Romanian Presidency and published on December 12th 2019 in the Official Journal in the EU;*
- ***Modification of the EMIR Regulation*** - simplification of certain regulated areas and using a more proportional approach in these areas - *dossier completed during the Romanian Presidency and published on May 28th 2019 in the Official Journal of the EU;*

- ***Cross-border Distribution of Investment Funds*** - aims to improve transparency of national requirements, eliminate burdensome requirements and harmonize divergent national rules, so that the cross-border distribution of investment funds is simpler and faster - *dossier completed during the Romanian Presidency and published in July 12th 2019 in the Official Journal of the EU*;
- ***Review of the European Financial Supervision System*** - aims to improve areas through governance, supervision culture , European Supervisory Authorities competencies, direct powers of European Supervisory Authorities (ESAs), financing, prevent money laundering - *dossier completed during the Romanian Presidency and published on December 27th 2019 in the Official Journal of the EU*;
- ***Covered Bonds*** - aims to align the structural characteristics of the bonds with the risk characteristics that justify the treatment of preferential treatment granted at EU level - *dossier completed during the Romanian Presidency and published on December 18th, 2019 in the Official Journal of the EU*;
- ***Amendment of the Motor Insurance Directive (MTPL)*** - proposes to amend some definitions, exemptions and derogations from insurance, consumers protection in case of insolvency, - *dossier currently being negotiated - obtaining the General Agreement in the EU Council on December 18th 2019*;
- ***Crowdfunding*** - aims to provide wider access to finance of innovative enterprises, start-ups, as well as other companies that have been unlisted - *dossier in trialogues with the European Parliament at the end of 2019*.

European legislation implementation

According to the statutory provisions, the FSA aims at developing the legislation at the European level in the non-banking financial sector and ensures communication with the competent national institutions for the national program through transposition and notification of the European directives.

In this regard, following the internal consultation, FSA sends monthly reports to the MFA on the stage of transposition into national legislation the normative acts that fall under its area of responsibility and ensures the permanent communication with the Romanian representation in Brussels on the European legislative transposition framework and the clarification of the issues requested by the EC. FSA maintained a constant dialogue with the MFA also by participating in its meeting on the transposition of European directives.



FINANCIAL
SUPERVISORY
AUTHORITY

ANNUAL REPORT

2019



Consolidation of institutional capacity



Projects portfolio management

One of the activities that contributes to supporting the FSA internal management in the implementation of the FSA strategy is the management of the projects portfolio, activity through which it is monitored the proper functioning of all the projects launched at the FSA level. All the approaches and activities circumscribed to the management of the project portfolio have as objective the transparency and adequate informing of all those involved, so that the decision-making process regarding the ongoing projects is easy, supple and in full knowledge of the facts.

In 2019, together with other organizational structures, **2 projects** were initiated to improve the institutional capacity and for the development and correlation of the FSA activity with financial innovation.

The FinTech project, launched in July 2019, consists in creating and managing a special hub dedicated to financial innovation at FSA level and represents a first link between FSA and entities that develop new business models, applications, processes or products that have a direct effect on providing the financial services applicable to the markets monitored by FSA.

Following the launch of this project, at the level of FSA it was created FinTech Hub as a single point of contact and connection between FSA and stakeholders, in order to encourage and support the regulated entities or other categories of companies or people interested in developing financial innovating products and services in the financial market, as well as providing guidance of a legislative nature or on the process of obtaining an authorization from the FSA.

Given the interest shown by FSA to support the financial innovation, as well as the increased interest from entities, the activity within FinTech Hub becomes, starting with 2020, a permanent activity within FSA.

Also, in 2019, **the project on improving reporting activity was started at FSA level**, which it currently under analysis and identification of the best options for future steps.

Transparency on the FSA strategies

In 2019, the **FSA Multiannual Strategic Plan** was approved and published on the Authority's website, which contains actions and objectives undertaken at the level of the entire institution, in order to ensure transparency and adequate information on the processes, activities and operations which are to be performed.

The objectives and activities included in the program according to the annual activity of the FSA are subordinated to the attributions and prerogatives conferred by law to the Financial Supervisory Authority. These are broadly aimed at consolidating and securing a proper function of the monitored markets, with the main aim of maintaining and increasing the trust of the investors and customers of the non-banking financial products, but also increasing the role of these markets as alternative to bank credit and as real economy financing.

Thus, in order to strengthen the role which the Authority plays within the markets and in order to offer the markets a clear, transparent vision, regarding the values, objectives and mission of FSA, in 2019, the following documents from the strategic and operational point of view were drafted at the level of the FSA.

Strategic objectives for
2019-2023 and the 2019
activity plan



FSA policy on
Consumers Protection
and General Principles
on Consumers
Protection Policy

2020 FSA activity
program



Human resource management

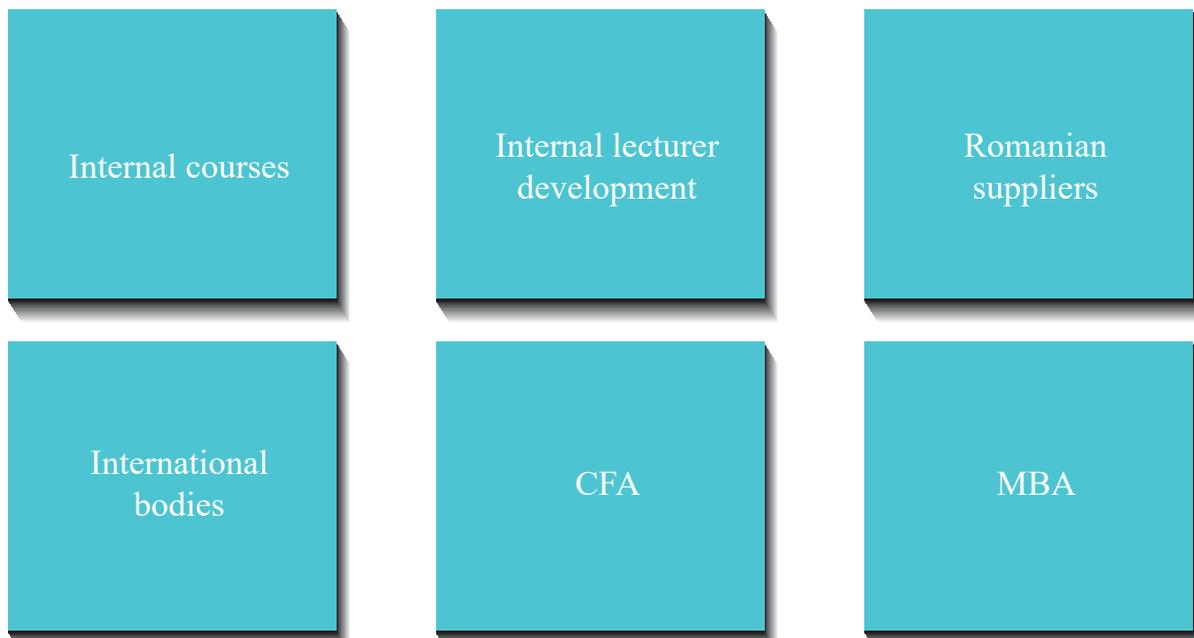
In 2019, FSA's vision regarding the personnel policy was subordinated to the major objective for **consolidating an institutional culture generating a high professional and managerial performance**. This objective was imposed as a sine qua non premises, aimed at developing the institutional bases and some stable pillars to support the fulfilment by the FSA of its specific tasks, marked by the requirements imposed by the legislative changes adopted at the European level within the capital market, insurance and private pension domain.

In order for the development efforts of the edifice to be anchored in a stable ground, in 2019, **the actions for the modernization and adaptation of the working methods and tools to the dynamics of the three activity sectors were continued:**

- About 40% of the internal procedures went through a careful review process with the aim of eliminating unnecessary and resource-consuming steps, bring more clarity for the responsibility level at the structure and individual level and for increasing the processes of effectiveness and efficiency;
- In order to attract the best specialists in the market, the recruitment and selection instruments were diversified, namely the professional knowledge tests have been widely used (since February 2019, the professional test has been applied in all recruitment processes and selection by competition) and semi-structured interview guides were used in competency-based behavioural interviews. Moreover, in order to develop the accuracy within the recruitment and selection processes, the acquisition of **the psychometric questionnaire** was completed.

Regarding the human capital creating strategy, FSA fulfilled the objectives, the development of professional and organizational skills of the employees being achieved through several action vectors:

Human capital development



To meet the objectives related to the development of professional skills and organization of employees, FSA has the following achievements:

- Implementation of the annual plan through professional training at FSA level, registering a **total number of 442 participations**;
- Significant development of a portfolio of training programs internally conceived - **17 programs, 12 programs being offered and delivered during 2019**;
- Participation in **internal courses accounted for 34% of total participation** in training programs.

Another vector was the ensuring the participation of the FSA employees in courses organized by international bodies (ESMA, EIOPA, EBA, Vienna Joint Institute).

The development of high-performing employees was encouraged by co-financing through MBA programs and continuing the collaboration with the CFA Institute (1 MBA scholarship and 4 CFA scholarships).

Money laundering prevention

FSA carries out the activity of money laundering prevention based on the attributions and competences conferred by *Law no. 129/2019 for preventing and combating money laundering and terrorist financing*, as well as for amending and supplementing some normative acts, which transposed into the national legislation the provisions and requirements of the *4th AML Directive - Directive (EU) 2015/849 of the European Parliament and of the Council dated May 20th 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 of the Directive 2006/70/EC of the Commission (Text with EEA relevance)*. However, the process of transposing these directives has been very complex and difficult, especially in view of the need for a recalibration of the new international/European requirements for the National Anti-Money Laundering/ Terrorist Financing (AML/CTF) system and for the normative framework determined by *Law no. 656/2002 (republished) for the prevention and sanctioning of money laundering, as well as for the establishment of measures for preventing and combating terrorist financing* (subsequently repealed).

The processes for the transposition and implementation of the European standards in the field of AML/CTF domain involved risk assessments, impact analysis, parameterization of risk indicators and determining the timeliness of some risk factors, etc. Last but not least, detailed analyses were carried out on the impact brought by several projects for the emergency ordinances sent for FSA approval, which were subsequently withdrawn (process for adopting the *Law no. 129/2019 to prevent and combat money laundering and terrorist financing, as well as for amending and supplementing some normative acts*).

In addition, a process has been launched for the implementation of Joint Guidelines on AML, issued by the European Supervisory Authorities, especially the *Risk Factors Guidelines (Joint Guidelines under Articles 17 and 18(4) of Directive (EU) 2015/849 on simplified and enhanced customer due diligence and the factors credit and financial institutions should consider when assessing the money laundering and terrorist financing risk associated with individual business relationships and occasional transactions)* and the *Risk-Based Supervision Guidelines (Joint Guidelines on the characteristics of a risk-based approach to anti-money laundering and terrorist financing supervision, and the steps to be taken when conducting supervision on a risk-sensitive basis)*. The implementation of this aspect considered both the operational and procedural aspects at the FSA level, but especially the development within a sectoral regulation framework (AML), which would allow the adaptation of risk factors to the specific activity carried out by the monitored entities.

In this sense, *Regulation no. 13/2019 on the establishment of measures to prevent and combat money laundering and terrorist financing by the financial sectors supervised by the FSA*, which represents a secondary (sectoral) legislation on AML/CTF applicable in the financial market monitored by the FSA, but also the normative support through which the aforementioned guides were transposed. *Regulation no. 13/2019* represents an integrated approach for the sectors monitored by FSA, being eliminated the differences through interpretations regarding the obligations established by *Law no. 129/2019 for the prevention and combating the money laundering and terrorist financing, as well as for the modification and completion of some normative acts* or through the relevant European standards.

Transparency of financing mechanisms - one of the components of the activities for the money laundering prevention is represented by the need to ensure the integrity of the monitored financial market, also aiming at the transparency of the financing mechanisms, of the control or holding structures within the supervised entities, but also at the completion of the information presented by them in the authorization/endorsement process.

From the perspective of profile international standards, key criteria (26.3) of the *Recommendations of the Financial Action Task Force (FATF)* no. 26 imposes the need to implement some operational and procedural mechanisms, and a regulatory framework through which the Authority can ensure that there is no possibility for individuals involved in criminal activities to have control or be the real beneficiaries of the monitored entities. In addition, the same diligence also includes holding management positions or any possibility to actually exercise control over financial institutions, regardless of the form. This FSA preventing activity is a distinct analysis segment within the evaluation missions carried out by the monitoring bodies, especially in terms of identifying some possible risks at the level of the EU financial level (by transferring the activity within the EU jurisdictions).

International sanction regime – *The Government's Emergency Ordinance no. 202/2008 regarding the implementation of international sanctions* established, in similar amendments to the AML / CTF profile legislation, attributes, competences and institutional responsibilities that FSA has in the field of applying the regime through sanctions issued by international bodies of certain jurisdictions, individuals or legal entities, assets, etc.

Activity in this area is determined, including by decisions adopted at the interinstitutional council level for the implementation of international sanctions (CIISI), coordinated by the Ministry of Foreign Affairs through the Office for the Implementation of International Sanctions (OISI). Through this interinstitutional mechanism, **157** other United Nations (UN) Security Resolutions, timely warnings and transpositions of Decisions from the European Council were applied.

Last but not least, FSA participated in the project "*Increasing the capacity of the Romanian Government to implement restrictive measures - 19RO03*", started by the Ministry of Foreign Affairs and funded by the European Commission. The report drafted following the preliminary assessment carried out by an implementer showed a functional mechanism at the level of the FSA for the application of the international sanction regime.

Council of Europe / MONEYVAL - Unlike other activities, the entire money laundering prevention activity carried out by FSA is the subject of a complex evaluation mechanism for the compliance with international standards in this field, including from the perspective of their effective implementation. In particular, the standards issued by the FATF (*Financial Action Task Force*) - G20 - The 40 Recommendations are concerned, and the international forum that can keep the evaluation mission is the MONEYVAL Committee within the European Council.

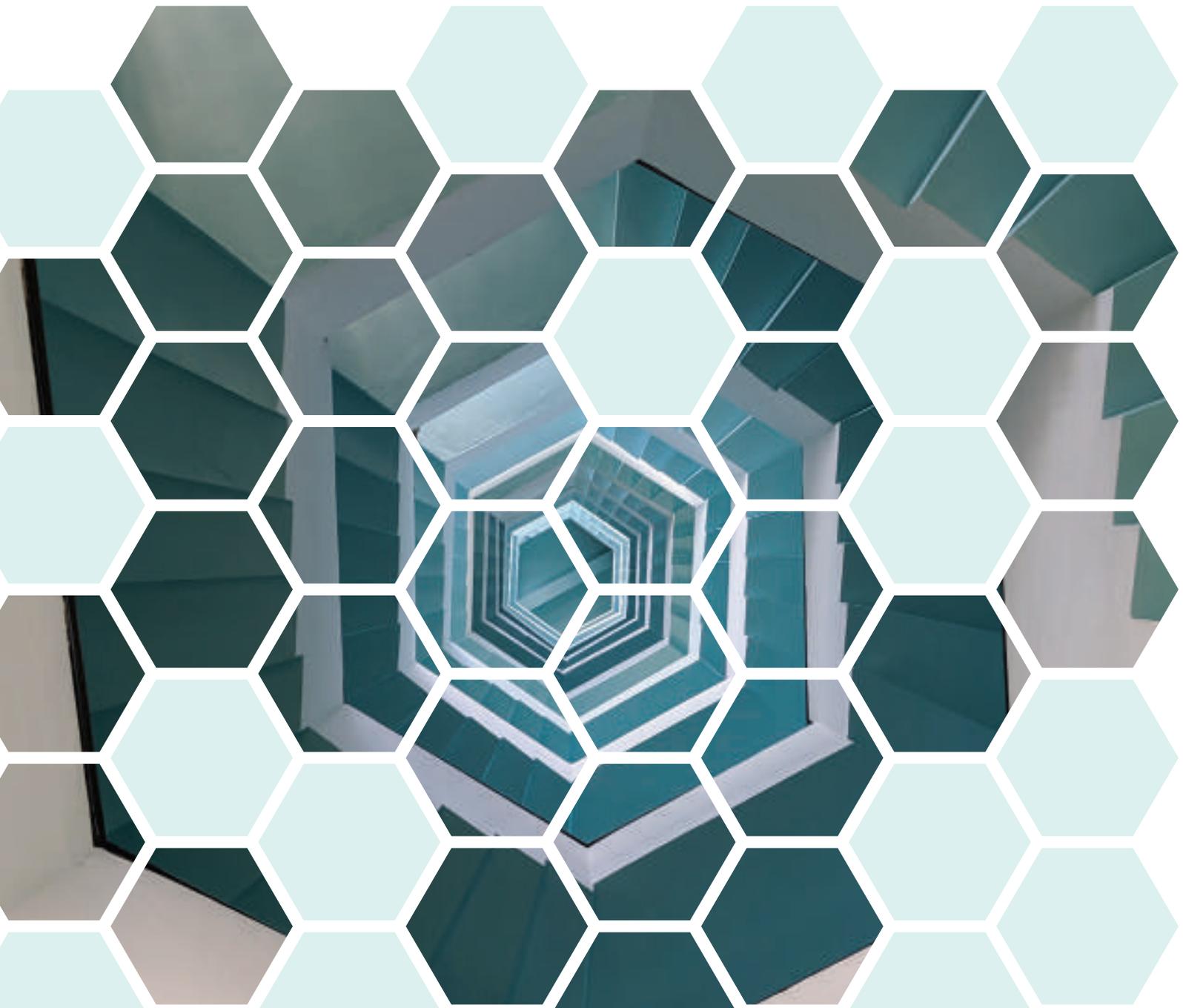
The 4th Round of Mutual Evaluation of Romania was conducted by the MONEYVAL Committee, being monitored and analysed all authorities and institutions that are part of the national AML/ CTF system, including the activity of FSA and the sectoral regulating framework issued in this field.

Subsequent to the reporting period, according to the applicable rules, the Member States decided in plenary reunion to follow the whole conformation process and eliminate the shortcomings identified during the evaluation mission, in the form of some *follow-up procedures* (does not involve the travel of the assessors).

Thus, after a sustained effort, which aimed both the operational aspects, as well as amending the legislation in this field, the deficiencies acknowledged at the level of the FSA or the three former commissions were eliminated (at the time of the evaluation, was FSA in the transition period).

Currently, following the decision adopted and the report presented in the Plenary no. 58 of the MONEYVAL Committee, all the deficiencies found at the FSA level that affected the rating given for *Recommendation 23 (FATF, v.2005 - Supervisors)* have been eliminated, registering a rather rare situation in which a state rating is increased during the *desk-review* procedures (involving only an analysis based of the documents submitted by the country and not a trip for a detailed assessment, including on the basis of some interviews).

Decisional transparency and public informing



Decisional communication and public informing

The Financial Supervisory Authority paid increased attention, also in 2019, to the communication of the main strategic action directions.

In 2019, the relationship with the media played a central role in terms of external communication activity. FSA drafted and sent **78 press releases** making available mainly information on the decisions of the Council of the Authority, data and statistics on the evolution of the three monitored and regulated markets, as well as the measures dedicated to the financial education and consumer protection.

In 2019, FSA had a permanent dialogue with journalists and answered approximately **190 requests for information** – straight to the point questions, interviews, and TV statements/synchronies from the media.

FSA website - www.asfromania.ro

The official website of the FSA is one of the most important channels for informing about the current activity of the FSA. www.asfromania.ro hosts data and information on projects for public consultation, legislative changes, public communications, non-banking financial market. On the website can be found the guides written by FSA for consumers, but also applications that support them (for example the one on identifying privately managed pension fund – 2nd Pillar).

The FSA website, both in Romanian, and English, is updated daily with information about the Authority's activity (an average of 150 interventions/month).

Requests based on Law no. 544/2001 on free access to information of public interest

FSA manages the requests drafted based on *Law no. 544/2001 regarding the free access to information of public interest* by the public and by the mass-media representatives. In 2019, FSA answered **48 requests for public information** regarding: the Authority's activity; the fulfilling of the attributions of the public institution; the activity of FSA sectors - Insurance-reinsurance Sector, Private Pension System Sector and Financial Instruments and Investments Sector; normative acts / regulations etc.

FSA electronic bulletin

FSA elaborates and edits weekly the FSA Electronic Bulletin in which there are published documents/ individual documents issued by FSA in the Financial Instruments and Investments sector. During 2019, over **413 documents** were published in the **54 FSA editions of the bulletins** and approximately **49 reports** submitted by capital market entities were edited and drafted (reports submitted by the IMC, according to *Regulation no. 9 / 2014 on authorization and operating the investment management companies, the collective investment undertakings and of the depositories of the collective investment undertakings*).

Social media

LinkedIn - **48 posts** - infographics, announcements with reference to the institution's website, teasers for press-releases and market reports, decisions of the FSA Council relevant for the target-public, promoting interviews and press articles including the statements of the FSA representatives, announcements made by ESMA or EIOPA, recruitment announcements, at the HR request, taken from the FSA website;

Facebook - **53 posts** - infographics, announcements with reference to the institution's website, promoting press releases and market reports, decisions of the FSA Council relevant for the target-public, promoting interviews and press articles that include statements of the FSA representatives.

Events

FSA organized in Bucharest two reference events of the decision-making forums of the two European authorities, ESMA and EIOPA, while Romania was holding the Presidency of the EU's Council:

- **EIOPA Strategy Day Meeting**, May 16th - 17th 2019, in Bucharest;
- **Meeting for ESMA Board of Supervisors**, May 22nd - 23rd 2019, in Bucharest.

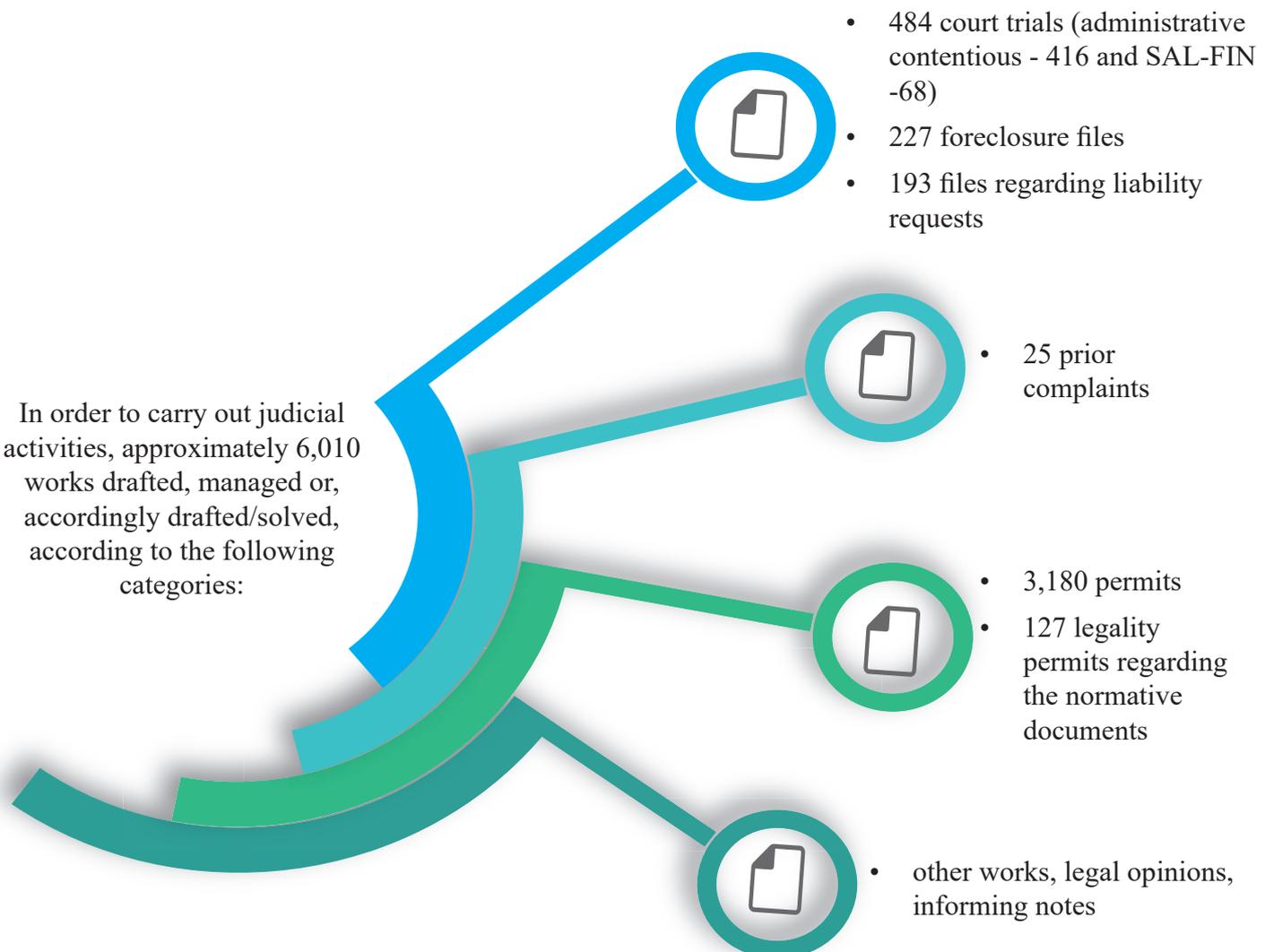
FSA judicial activity

Among the values that guide the judicial activity are **accountability**, **transparency**, **independence** and **performance**. Through the coherent promoting of such values and by conducting business in a transparent and accountable manner, FSA acts by applying the best practice in the field in order to ensure a full and proper function of an Authority.

In 2019, the judicial component involved the development of complex activities, in order to achieve the main objectives, given the 3 components, namely:

- ensuring a comprehensive, stable and coherent legal framework that meets the efficient and secure functional needs of the non-banking financial market;
- ensuring the legality of the FSA documents, by verifying their compliance with the applicable legislation;
- protecting the FSA rights and preventing litigious situations, by representing the interests of the institution in front of the courts/arbitral tribunals, the criminal investigation bodies and of the Prosecutor's Office attached to the courts of justice or in the mediation procedure.

In order to carry out judicial activities, approximately 6,010 works drafted, managed or, accordingly drafted/solved, according to the following categories:



Aspects regarding the examination of prior complaints and their solving with FSA Council decisions

The activity for resolving preliminary complaints consisted both in the analysis of the aspects reported and the formulation of action proposals, as well as in the drafting and transmission of official response in the preliminary administrative procedures, foreseen by the *Administrative contentious Law no. 554/2004*.

Of the 25 prior complaints against the administrative acts and the measures decided by the authority, **20 were on the capital market field, 4 in the field of reinsurance insurance and one prior complaint in the field of private pensions.**

Activity specific to the contentious field - representation in court of the FSA interests

Considering the specific attributes of the FSA in the field of the three sectors by activity, the task of representing the institution before the courts of justice mainly concerns **the cases belonging to the three fields of activities**, solved in the procedure foreseen by the *Law no. 554/2004 on the administrative contentious*, with subsequent amendments and completions.

Disputes concerning the administrative acts and measures ordered by the FSA are of particular importance, as they constitute the occasion for their legality and validity to be verified in court, in the context of a divergence of arguments between the parties. In many cases, the pecuniary stake in these disputes actually consists in the effects on the patrimony of the party concerned by the individual administrative act or in the necessity to comply with the requirements of the regulatory acts issued by the FSA. This fact is demonstrated, given that sometimes the representation in court of the individuals who understand to initiate litigation against FSA is ensured by the major law firms, specialized in the three areas of activity, which involve in this process considerable experience and human/material resources.

A category of litigation with financial impact is represented by **the administrative contentious litigation aimed at annulling fine** sanctioning acts related to a sector supervised by the FSA.

Another category of **litigation refers to those concerning measures in claims**, in which FSA is called, alone or together with other defendants, to cover the damages suffered by the plaintiffs, following an act/ deeds causing damages (according to the assessments the complaining parties). In general, if such files, FSA invokes, first, a lack of the passive procedural status of the authority.

With regard to property disputes, **a separate place is work disputes having as object requests drafted by former employees/members of the National Securities Commission (CNVM), Insurance Supervision Commission (CSA), Private Pension System Supervising Commission (CSSPP) and FSA.**

A new category of litigation is represented by those **resulting in the activity of SAL-FIN**, in which SAL-FIN and/or, if any, FSA, are summoned in court, as defendant, in cases having as object the annulment of the decisions pronounced by the conciliators and the obligation to pay some sums of money. In this sense, we specify that, in 2019, **68 litigations were settled with this object**. Of these, 19 were registered in the previous years.

To the above, it is added **the litigations concerning exceptions of unconstitutionality and appeals in the interest of the law and the cases regarding the pronouncing of preliminary decisions for resolving a question by law**, in which FSA presents the opinion of the authority on the rules that are the object of the exception/appeal.

In 2019, **484 litigations** were settled (from this total are excluded the files having as object debt claims, confirmation of foreclosure, requests to issue some payment orders).

Of these:

- Were definitely solved: 92 files
- Solved in the matter procedural phase: 73 files

Specific activity for the recovery of FSA receivables and the execution of the steps aiming at the foreclosure of the executory titles (court resolutions/sanctioning decisions) obtained/issued by FSA

In 2019, **193 debt claims made by FSA** were processed in files which had as object insolvency proceedings some entities that owed amounts to the institution's budget (in general, it is about issuers of securities that owed the maintenance securities fee).

In 2019, FSA instrumented **227 enforcement procedures aimed at recovering the amounts that are part of the FSA budget** according to the relevant legal provisions.

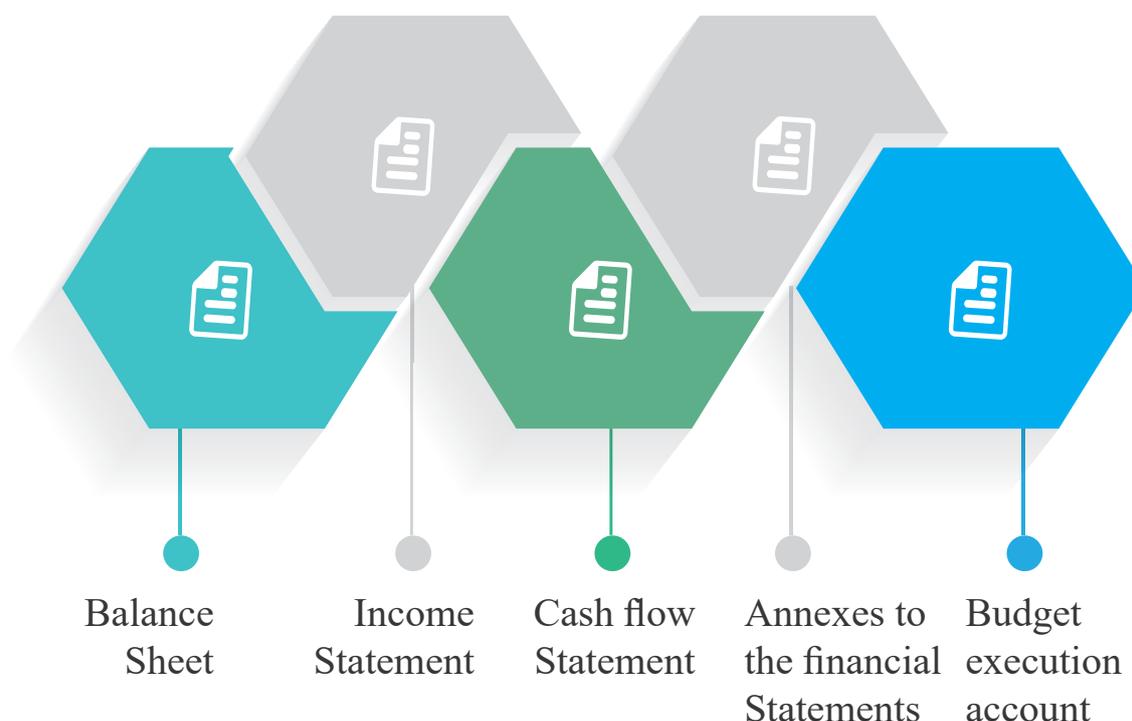
FSA financial statements and audit Report



FSA financial statements

The financial statements as of 31.12.2019 were prepared according to the provisions of *the Accounting Law no. 82/1991*, from the *Public Order of the Ministry of Public Finance no. 1917/2005*, regarding the approval of the *Methodological Norms on the organization and management of their public accounting institutions*, the *Chart of Accounts for public institutions and the instructions to apply it*, with the subsequent modifications and completions and the *Order of the Public Finance Ministry no. 1/2020 for the amendment and completion of the Order of the Public Finance Ministry no. 3.265/2019 regarding the rules for drafting by the public institutions of the financial situations drafted starting with the end of the third quarter of 2019*, as well as for the amendment and completion of another normative act in the field of capacity institutions.

The FSA financial statements are drafted according to the accounting principles and rules foreseen by the legislation in force and include:



The financial statements are drafted in lei, the monetary elements expressed in foreign currency, liabilities and debts in foreign currency, non-monetary elements purchased with the payment in foreign currency are evaluated and reported at the Romanian National Bank's exchange rate valid on 31.12.2019.

The annual financial statements were audited by Ernst & Young SRL. The opinion of the auditors was that **the financial statements offer a precise and just image of the financial position for FSA** on December 31st, 2019, as well as of the financial performance and of the cash flows.

FSA balance sheet as of 31.12.2019

-lei-

No.	NAME OF INDICATORS	Row code	Balance at the beginning of the year	Balance at the end of the year
A	B	C	1	2
1.	ASSETS	01	X	X
2.	NON-CURRENT ASSETS	02	X	X
3.	Intangible fixed assets (ct.2030000+2050000+2060000+2080100+2080200+2330000-2800300-2800500-2800800-2900400-2900500-2900800-2930100*)	03	3,863,343	2,148,321
4.	Technical installations, means of transport, animals, plantations, furniture, office equipment and other tangible assets (ct.2130100+2130200+2130300+2130400+2140000+ 2310000 -2810300-2810400-2910300-2910400-2930200*)	04	3,404,306	2,225,545
5.	Lands and buildings (ct.2110100+2110200+2120101+2120102+2120201+2120301+ 2120401+2120501+2120601+2120901+2310000-2810100-2810200-2910100-2910200-2930200)	05	13,265,491	13,812,589
6.	Other non-financial assets (ct.2150000)	06	0	0
7.	Non-current financial assets (long-term investments) for more than one year (ct. 2600100+2600200+2600300+2650000+2670201+ 2670202+2670203+2670204+2670205+2670208-2960101-2960102-2960103-2960200), din care:	07	0	0
8.	Securities title (ct. 2600100+2600200+2600300-2960101-2960102-2960103)	08	0	0
9.	Non-current receivables - amounts which are to be collected after a period longer than a year (ct. 4110201+4110208+4130200+4280202+4610201+4610209- 4910200-4960200), din care:	09	0	0
10.	Non-current receivables - amounts to be collected after a period longer than one year (ct. 4110201+4110208+4130200+4610201-4910200-4960200)	10	0	0
11.	TOTAL NON-CURRENT ASSETS (row 03+04+05+06+07+09)	15	20,533,140	18,186,455
12.	CURRENT ASSETS	18		X
13.	Stocks (ct. 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	1,442,263	1,532,586
14.	Current receivables - amounts to be collected in a period of less than one year	20		X
15.	Receivables from commercial operations, pre-payments and other settlements (ct. 2320000+2340000+4090101+4090102+4110101+4110108+ 4130100+4180000+4250000+4280102+4610101+4610109+4810103+4810200+4810300+4810900+4820000+4830000+4890101+4890301-4910100-4960100+5120800), din care:	21	18,015,249	19,861,850
16.	Settlements on concluding the execution of the current state budget (ct. 4890101+4890301)	21.1	0	
17.	Debts and pre-payments (ct.2320000+2340000+4090101+4090102+4110101+4110108+ 4130100+4180000+4610101-4910100-4960100), din care :	22	18,015,231	19,861,850
18.	Granted pre-payments (ct.2320000+2340000+4090101+4090102)	22.1	0	0
19.	Budgetary liabilities (ct.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), din care:	23	1,062,577	1,401,574

No.	NAME OF INDICATORS	Row code	Balance at the beginning of the year	Balance at the end of the year
20.	Consolidated general budget receivables (ct.4630000+4640000+4650100+4650200+4660401+ 4660402+ 4660500+4660900-4970000)	24		0
21.	Receivables in operations with non-reimbursable external funds and funds from the budget (ct. 4500100+4500300+4500501+4500502+4500503+ 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), din care:	25	0	0
22.	Amounts received from the European Commission/other donors (ct.4500100+4500300+4500501+4500502+4500503+ 4500504+ 4500505+4500700)	26	0	0
23.	Short-term granted loans (ct. 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	170,126,529	156,541,977
24.	Total current receivables (row 21+23+25+27)	30	189,204,355	177,805,401
25.	Short-term investment (ct.5050000-5950000)	31		
26.	Treasury and credit institution accounts:	32		X
27.	Treasury accounts, cash account in lei (ct. 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	24,892,203	23,447,433
28.	Receivable interest, other securities, treasury advance payments (ct. 5180701+5320100+5320200+5320300+5320400+ 5320500+ 5320600+5320800+5420100)	33.1	1,764	1,764
29.	deposits	34		X
30.	Accounts with the credit institutions, Romanian National Bank cash account in foreign currency (ct. 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	29,260,151	80,849,442
31.	Receivable interest, treasury advance payments (ct.5180702+5420200)	35.1	290,148	812,711
32.	Deposits	36		X
33.	Total cash and other values (row 33+33.1+35+35.1)	40	54,444,266	105,111,350
34.	Liquid assets accounts at the Central Treasury and the territorial Treasuries (ct. 5120600+5120700+5120901+5120902+5121000+ 5240100+ 5240200+5240300+5550101+5550102+5550103 -7700000)	41	0	0
35.	Receivable interest, other securities, treasury advance payments (ct.5320400+5180701+5180702)	41.1	0	0
36.	Pre-paid expenses (ct. 4710000)	42	15,300	31,479
37.	TOTAL CURRENT ASSETS (row 19+30+31+40+41+41.1+42)	45	245,106,184	284,480,816
38.	TOTAL ASSETS (row 15+45)	46	265,639,324	302,667,271
39.	LIABILITIES	50		X
40.	NON-CURRENT LIABILITIES – amounts which are to be paid after a period longer than one year	51		X
41.	Non-current amounts - amounts which are to be paid after a period longer than one year (ct. 2690200+4010200+4030200+4040200+4050200+ 4280201+4620201+4620209+5090000), din care:	52	0	0

No.	NAME OF INDICATORS	Row code	Balance at the beginning of the year	Balance at the end of the year
42.	Commercial liabilities (ct.4010200+4030200+4040200+4050200+4620201)	53	0	0
43.	Long-term loans (ct. 1610200+1620200+1630200+1640200+1650200+ 1660201+1660202+1660203+1660204+1670201+1670202+ 1670203+1670208+1670209-1690200)	54	1,295,720	639,740
44.	Provisions (ct. 1510201+1510202+1510203+1510204+1510208)	55	33,206,945	35,993,414
45.	TOTAL NON-CURRENT LIABILITIES (row 52+54+55)	58	34,502,665	36,633,154
46.	CURRENT LIABILITIES – amounts which are be paid in a period of up to one year	59		X
47.	Commercial liabilities, pre-payments, and other settlements (ct. 2690100+4010100+4030100+4040100+4050100+ 4080000+4190000+4620101+4620109+4730109+4810101+ 4810102+4810103+4810200+4810300+4810900+4820000+ 4830000+4890201+5090000+5120800), din care:	60	686,196	1,121,962
48.	Settlements regarding the conclusion of the current state budget execution (ct. 4890201)	60.1		0
49.	Commercial liabilities and pre-payments (ct. 4010100+4030100+4040100+4050100+ 4080000+ 4190000+ 4620101), din care:	61	536,532	1,031,515
50.	Pre-payments received (ct.4190000)	61.1	0	
51.	Liabilities to budgets (ct. 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), din care:	62	4,293,350	4,468,366
52.	Liabilities of public institutions to budgets	63		X
53.	Social security contributions (ct. 4310100+4310200+4310300+4310400+4310500+ 4310700+4370100+4370200+4370300)	63.1	3,570,311	3,769,505
54.	Amounts due to the budget in the non-reimbursable external funds (ct.4550501+4550502+4550503)	64	0	0
55.	Liabilities in operations with non-reimbursable external funds and funds from the budget, other liabilities to other international bodies (ct. 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 owed to the European Commission/other donors (ct.4500200+ 4500400+4500600+4590000+4620103)	66	0	0
57.	Short-term loans - amounts which are to be paid in a period of one year (ct. 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 which are to be paid within the current year (ct. 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.	Employee salary (ct. 4210000+4230000+4260000+4270100+4270300+4280101)	72	5,719,000	6,099,750
60.	Other rights accruing to other individual categories (pension, unemployment compensation, scholarships) (ct. 4220100+4220200+4240000+4260000+4270200+ 4270300+ 4290000+4380000), din care:	73	0	0
61.	Pension, unemployment compensations, scholarships	73.1		X
62.	Pre-paid income (ct.4720000)	74	0	0
63.	Provisions (ct.1510101+1510102+1510103+1510104+1510108)	75	15,945,692	17,062,420
64.	TOTAL CURRENT LIABILITIES (row 60+62+65+70+71+72+73+74+75)	78	26,644,238	28,752,498

No.	NAME OF INDICATORS	Row code	Balance at the beginning of the year	Balance at the end of the year
65.	TOTAL LIABILITIES (row 58+78)	79	61,146,903	65,385,652
66.	NET ASSETS = TOTAL ASSETS - TOTAL LIABILITIES = EQUITY (row 80= row 46-79 = row 90)	80	204,492,421	237,281,619
67.	EQUITY	83		X
68.	Reserves, funds (ct.1000000+1010000+1020101+1020102+1020103+1030000+1040101+1040102+1040103+1050100+1050200+1050300+1050400+1050500+1060000+1320000+1330000+1390100)	84	4,152,261	5,361,017
69.	Retained earnings (ct.1170000- sold creditor)	85	166,507,588	200,779,775
70.	Retained earnings (ct.1170000- sold debtor)	86		
71.	The patrimonial result of the year (ct.1210000- sold creditor)	87	33,832,572	31,140,827
72.	The patrimonial result of the year (ct.1210000- sold debtor)	88		
73.	TOTAL EQUITY (row 84+85-86+87-88)	90	204,492,421	237,281,619

FSA INCOME STATEMENT as of 31.12.2019

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No.	NAME OF INDICATORS	Row code	Prior year	Current year
A	B	C	1	2
I.	OPERATIONAL INCOME	01	0	
1.	Income from duties, taxes, insurance contributions and another budget income (ct. 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.	Income from economic activities (ct. 7210000+7220000+7510100+7510200+/-7090000)	03	0	0
3.	Financing, subventions, transfers (ct. 7510500+7710000+7720100+7720200+7740100+7740200+7750000+7760000+7780000+7790101+7790109)	04	32,265	188,776
4.	Other operational income (ct. 7140000+7180000+7500000+7510300+7510400+7810200+7810300+7810401+7810402+7770000)	05	208,448,549	210,941,091
	TOTAL OPERATIONAL INCOME (row 02+03+04+05)	06	208,480,814	211,129,867
II.	OPERATIONAL EXPENSES	07		
1.	Salaries and social security contributions related to the employees (ct. 6410000+6420000+6450100+6450200+6450300+6450400+6450500+6450600+6450800+6460000+6470000)	08	142,991,591	148,931,452
2.	Subventions and transfers (ct. 6700000+6710000+6720000+6730000+6740000+6750000+6760000+6770000+6780000+6790000)	09	6,408,406	7,031,236
3.	Stocks, consumables, works, and services carried out by third parties (ct. 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	13,375,426	12,867,267
4.	Expenses with capital, settlements, and provisions (ct. 6290200+6810100+6810200+6810300+6810401+6810402+6820101+6820109+6820200+6890100+6890200)	11	15,510,484	17,100,290
5.	Other operational expenses (ct. 6350000+6350100+6540000+6580101+6580109)	12	8,676	1,317,108

No.	NAME OF INDICATORS	Row code	Prior year	Current year
	TOTAL OPERATIONAL EXPENSES (row 08+09+10+11+12)	13	178,294,583	187,247,353
III.	OPERATING RESULT	14		
	- SURPLUS (row 06- row 13)	15	30,186,231	23,882,514
	- DEFICIT (row 13- row 06)	16		
IV.	FINANCIAL INCOME (ct. 7630000+7640000+7650100+7650200+7660000+7670000+7680000+7690000+7860300+7860400)	17	3,728,363	7,333,669
V.	FINANCIAL LIABILITIES (ct. 6630000+6640000+6650100+6650200+6660000+6670000+ 6680000+6690000+6860300+6860400+6860800)	18	92,540	75,356
VI.	FINANCIAL RESULT	19		
	- SURPLUS (row 17- row 18)	20	3,635,823	7,258,313
	- DEFICIT (row 18- row 17)	21		
VII.	CURRENT ACTIVITY RESULT	22		
	- SURPLUS (row 15+20-16-21)	23	33,822,054	31,140,827
	- DEFICIT (row 16+21-15-20)	24		
VIII.	EXTRAORDINARY REVENUES (ct.7910000)	25	10,518	
IX.	EXTRAORDINARY EXPENDITURE (ct.6900000+6910000)	26	0	
X.	EXTRAORDINARY ACTIVITY RESULT	27		
	- SURPLUS (row 25-row 26)	28	10,518	
	- DEFICIT (row 26-row 25)	29		
XI.	THE PATRIMONIAL RESULT OF THE YEAR (GROSS)	29.1		
	- EXCEDENT (row 23+28-24-29)	29.2	33,832,572	31,140,827
	- DEFICIT (row 24+29-23-28)	29.3		
	Income tax expense (din ct. 635 *)	29.4	0	

CASH FLOW STATEMENT as of 31.12.2019

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NAME OF THE INDICATOR	Row code	TOTAL	5310101	5600101*, 770*	Other cash (ct.5xx)
A	B	1	2	10	15
I. CASH FROM OPERATING ACTIVITIES	1				
1. Revenues	2	200,492,685	189,225	200,246,667	56,793
2. Payments	3	167,860,888	189,225	167,624,521	47,142
3. Net cash in the operational activity (row 02- row 03)	4	32,631,797	0	32,622,146	9,651
II. CASH IN THE INVESTMENT ACTIVITY	5				
1. Revenues	6	0	0	0	0
2. Payments	7	2,076,567	0	2,076,567	0
3. Net cash in the investment activity (row 06-07)	8	-2,076,567	0	-2,076,567	0
III. CASH IN THE FINANCING ACTIVITY	9				
1. Revenues	10	-32,000,000	0	-32,000,000	0
2. Payments	11	0	0	0	0

3. Net cash in the financing activity (row 10-row 11)	12	-32,000,000	0	-32,000,000	0
IV. NET CASH AND CASH EQUIVALENT GROWTH (DECREASE) (row 04+row 08+row 12)	13	-1,444,770	0	-1,454,421	9,651
V. CASH AND CASH EQUIVALENT AT THE BEGINNING OF THE YEAR	14	24,892,203	0	24,866,748	25,455
- Amounts recovered in the surplus of the prior year**) (row 14.1)	14.1		x		x
- Amounts used in the surplus of the prior year/ amounts transferred in addition to the local budget/amounts transferred in addition for constituting Treasury deposits***) (row 14.2)	14.2	0	x	0	x
Amounts transferred in the liquid asset not used at the end of the period year precedent****) (row 14.3)	14.3		x	x	x
VI. CASH AND CASH EQUIVALENT AT THE END OF THE PERIOD (row 13 + row 14 + row 14.1 - row 14.2 - row 14.3)	15	23,447,433	0	23,412,327	35,106

CASH FLOW STATEMENT for commercial banks as of 31.12.2019

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NAME OF THE INDICATOR	Row code	Total	5310402	5500102, 5600402, 5120402, 550
A	B	1	2	3
I. CASH FROM OPERATING ACTIVITIES	01			
1. Revenues	02	596,205,975	1,535,896	594,670,079
2. Payments	03	544,606,483	1,535,960	543,070,523
3. Net cash in the operational activity (row 02- row 03)	04	51,599,492	-64	51,599,556
II. NCASH IN THE INVESTMENT ACTIVITY	05			
1. Revenues	06	0	0	0
2. Payments	07	0	0	0
3. Net cash in the investment activity (row 06-07)	08	0	0	0
III. CASH IN THE FINANCING ACTIVITY	09			
1. Revenues	10	0	0	0
2. Payments	11	0	0	0
3. Net cash in the financing activity (row 10-row 11)	12	0	0	0
IV. NET CASH AND CASH EQUIVALENT GROWTH (DECREASE) (row 04+row 08+row 12)	13	51,599,492	-64	51,599,556
V. CASH AND CASH EQUIVALENT AT THE BEGINNING OF THE YEAR	14	29,260,151	0	29,260,151
1. Favorable exchange rate differences	15	10,069	113	9,956
2. Unfavorable exchange rate differences	16	20,270	49	20,221
VI. CASH AND CASH EQUIVALENT AT THE END OF THE PERIOD (row 13+14 +15-16)	17	80,849,442	0	80,849,442

EXECUTION OF THE INCOME AND EXPENDITURE BUDGET OF FSA FOR 2019

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Indicator name	Budget code	2019 annual forecast	Budget execution	% de realizare
31.12.2019	% achievement	3	4	5=4/3
TOTAL OWN INCOME, of which:	00.01.10	205,316,259	205,230,497	99.96
I. INCOME FROM RENTING	30.10	917,538	809,897	88.27
II. INCOME FROM INTERESTS	31.10	5,987,486	5,157,018	86.13
III. FINES, PENALTIES AND CONFISCATIONS	35.10	216,116	159,829	73.96
IV. CURRENT INCOME, of which:		198,195,119	199,103,753	100.46
1. Shares related to transactions with financial instruments and public offers	36.10.50	12,153,539	9,900,976	81.47
Share of the transaction value with financial instruments carried out in the framework of the monitored transacting systems, except for the transactions with derivate financial instruments	36.10.50	5,811,584	6,179,184	106.33
Shares perceived for monitoring the transactions carried outside the transacting systems (turnaround)	36.10.50	865,396	782,407	90.41
Share of the value of the public sales offers	36.10.50	500,184	40,299	8.06
Share of the value of the public purchasing/taking over offers	36.10.50	4,976,375	2,899,086	58.26
2. Share and applicable taxes for the functioning/management/supervision of the collective placement schemes, private pension fund and insurer/insurance/reinsurance brokers	36.10.50	179,094,863	181,356,184	101.26
Monthly share of the net asset value of the investment fund (collective investment schemes)	36.10.50	38,143,797	38,550,971	101.07
Monthly share of the net asset value of the privately managed pension funds (2nd pillar)	36.10.50	49,510,714	50,834,493	102.67
Monthly tax amounting to the gross contributions cashed in by the private pension funds (2nd pillar)	36.10.50	22,758,975	23,507,583	103.29
Monthly share of the value of the net asset of the voluntary pension funds (3rd pillar)	36.10.50	2,670,899	2,686,882	100.60
Monthly tax of the value of the gross contributions cashed in by the voluntary pension funds (3rd pillar)	36.10.50	844,766	844,031	99.91
Functioning tax applicable to the depositories of the privately managed pension funds	36.10.50	461,730	504,405	109.24
Insurance broker contributors	36.10.50	1,194,049	1,239,497	103.81
Contribution to exercising the monitoring and control of the non-life insurance activity, less the motor vehicle insurance activity	36.10.50	18,098,365	19,673,701	108.70
Contribution to exercising the surveillance and the control of the life insurance activity	36.10.50	6,454,682	6,585,428	102.03
Contribution to exercising the surveillance and the control of the motor vehicle civil liability insurance activity	36.10.50	38,956,886	36,929,193	94.80
3. Revenues from other activities, of which	36.10.50	6,376,791	7,143,041	112.02
Tariff/tax for solving the authorisation/endorsement/certification and withdrawal of the authorisation for the regulated entities	36.10.50	1,136,213	1,652,420	145.43
Tariff/tax for the enrolment/registration/maintenance/deletion in/from the FSA records and registrations	36.10.50	415,437	368,237	88.64

Indicator name	Budget code	2019 annual forecast	Budget execution	% de realizare
Quotas/tariffs/taxes perceived for monitoring the entities regulated by FSA foreseen in art. 2 alignment (1) letter. a) of the Government's Emergency Ordinance no. 93/2012 regarding the establishment, organisation and functioning of the Financial Supervision Authority, approved with the amendments and additions of the Law no. 113/2013, with the later amendments and additions (Government's Emergency Ordinance no. 93/2012), except for the investment companies	36.10.50	3,492,841	3,612,984	103.44
Tariffs and taxes from other activities carried out by FSA	36.10.50	1,332,300	1,509,400	113.29
Other income		569,926	703,552	123.45
TOTAL EXPENSES, of which:	80.01.30	204,034,751	169,704,015	83.17
CURRENT EXPENSES (10 + 20 +30+ 55)	80.01.30	192,497,967	169,670,589	88.14
PERSONNEL EXPENSES of which:	80.01.30.10	166,493,353	149,687,025	89.91
Salary monetary expenses	80.01.30.10.01	159,085,502	143,130,746	89.97
Salary in kind expenses	80.01.30.10.02	3,875,955	3,337,828	86.12
Contributions	80.01.30.10.03	3,531,896	3,218,451	91.13
ASSETS AND SERVICES	80.01.30.20	18,916,394	12,906,987	68.23
Assets and services	80.01.30.20.01	9,478,584	5,867,088	61.90
Current reparations	80.01.30.20.02	135,000	45,720	33.87
Inventory goods	80.01.30.20.05	361,223	243,792	67.49
Travel	80.01.30.20.06	1,514,356	929,747	61.40
Books, publications and documentary materials	80.01.30.20.11	65,780	26,079	39.65
Consultancy and expertise	80.01.30.20.12	937,950	436,586	46.55
Professional training	80.01.30.20.13	788,534	430,804	54.63
Work safety	80.01.30.20.14	565,830	465,993	82.36
Judicial and extrajudicial expenses	80.01.30.20.25	50,000	3,071	6.14
Other expenses	80.01.30.20.30	5,019,137	4,458,106	88.82
TRANSFERS - subscriptions to international bodies	80.01.30.55	7,088,220	7,076,577	99.84
CAPITAL EXPENSES	80.01.30.70	13,339,912	2,076,567	15.57
TITLE X NON-FINANCIAL ASSETS	80.01.30.71	13,339,912	2,076,567	15.57
Fixed assets	80.01.30.71.01	11,999,912	2,067,190	17.23
Reparations capital related fixed assets	80.01.30.71.03	1,340,000	9,377	0.70
Payments carried out in the previous years and recovered in the present year	80.01.30.85.01.03	-1,803,128	-2,043,140	113.31
CURRENT EXCESS		1,281,508	35,526,482	2,772.24

REPORT ON THE BALANCE SHEET AND THE PROFIT STATEMENT AS OF 31.12.2019

The total assets of FSA on December 31st, 2019 amounted to **Lei 302,667,271**, with Lei 37,027,947 higher more than their value on 31.12.2018, the increase generated mainly by the positive evolution of the financial liquid assets, resulting from the income collection.

The total liabilities in the balance sheet on 31.12.2019, amounting to **Lei 65,385,652** includes, for the most part, provisions for litigation, retirement, payment of certain rights of the staff for the finalising financial year, holidays not carried out.

The estimated value of the provisions for risks and expenses recognized in the financial statements is **Lei 53,055,834**, of which the amount of provisions for work litigations in which FSA is involved is of **Lei 33,413,530**. The other provisions for property disputes, as well as the provisions for

holidays not carried out, retirement provisions etc. were valued at **Lei 19,642,304**.

The other liabilities represent, for the most part, personnel rights related to December 2019 and paid in January 2020.

The patrimonial result is a positive one, decreasing compared to the previous one, decrease generated mainly by higher operational expenses.

BUDGET EXECUTION ACCOUNT

In accordance with the art. 18 of the *Government's Emergency Ordinance no. 93/2012 on the establishment, organization and functioning of the Financial Supervisory Authority, approved with amendments and completions by Law no. 113/2013 for the approval of the Government's Emergency Ordinance no. 93/2012 on the establishment, organization and functioning of the Financial Supervisory Authority, with subsequent amendments and completions*, FSA is fully financed from its own extra-budgetary revenues. The structure of the incomes, as well as the level of quotas, tariffs, taxes and taxpayers are regulated in *Regulation no. 16/2014 regarding the FSA income, with subsequent amendments and completions*.

Expenditure shall be determined by the annual budget of the FSA in accordance with those objectives and responsibilities.

The budget execution account includes the collected cash under revenues and the incurred payments under expenditure. The budget surplus was established as the difference between the collected revenues and the incurred payments.

The current surplus of the FSA budget execution was **Lei 35,526,482**.

In accordance with the legal provisions mentioned above and with the structure of the Revenue and Expenditure FSA Budget approved for 2019, forecast and collected revenues are as follows:

FSA income statement in 2019 by structures

-lei-

Article	Annual provisions 2019	Budget execution 2019	Achievement degree compared to forecasts (%)
Other revenues from concessions and rentals	917,538	809,897	88.27
Interest revenues	5,987,486	5,157,018	86.13
Fine revenues	216,116	159,829	73.96
Operational revenues, of which:	198,195,119	199,103,753	100.46
Shares related to transactions with financial instruments and public offers	12,153,539	9,900,976	81.47
Shares and taxes applicable for the functioning/ management/ supervision of the collective placement undertakings, private pension fund and insurer/ insurance / reinsurance brokers	179,094,863	181,356,184	101.26
Revenue derived from other activities	6,376,791	7,143,041	112.02
Other revenues	569,926	703,552	123.45
TOTAL REVENUES	205,316,259	205,230,497	99.96

According to the *Regulation no. 16/2014 regarding the FSA income, with the later amendments and additions*, collected revenues are as follows:

Revenues from shares related to transactions with financial instruments and public offers registered a revenue volume in 2019 of Lei 9,900,976, representing an achievement degree of 81.5% of the forecasted value of the period. The most relevant shares within these income categories are as follows:

- quotes of the value transactions with financial instruments performed within the supervised transaction systems, except for transactions with financial derivative instruments (up to 0.06%): Lei 6,179,184, achievement degree of 106.3% compared to the value forecasted for the period;
- share in value of public sales – taking over offers (between 0.05% and 0.1%), but not more than Lei 500,000, respectively Lei 1,000,000): Lei 40,299, achievement degree of 8.1% compared to the budget foreseen value;
- share of the purchase - takeover public offers value (between 1% and 1.5%): Lei 2,899,086, achievement degree of 58.3% compared to the budget forecast.

Revenues from these sources generated, in 2019, approximately 4.8% of the revenues of FSA.

Revenues from quotas and taxes applicable for the functioning/administration/supervision of collective investment schemes, private pension funds and insurer/insurance/reinsurance intermediaries recorded a collection volume in 2019 amounting to Lei 181,356,184, representing a degree of achievement of 101.3% of the value forecasted for the period. The main revenue sources for these categories are as follows:

- 0.0078% share of the net asset value of the investment funds (collective investment schemes): Lei 38,550,971, achievement degree of 101.1% compared to the budgeted value;
- 0.0078% share of the net asset value of the privately managed pension funds and the monthly tax of 0.3% (0.25% in July 2019) of the amount of the gross contributions received by the private pension funds (2nd pillar): Lei 74,342,076, achievement degree of 102.9% compared to the budgeted value;
- 0.01% share of net asset value of the voluntary pension funds and the monthly tax of 0.25% of the value of the gross contribution received by the voluntary pension funds (3rd pillar), as well as the functional taxes applicable to the depositors: Lei 4,035,318, achievement degree of 101.46% compared to the budgeted value;
- applicable contributions to the insurers and insurance intermediaries: functional tax of 0.3% applicable to insurers/operation tax of 0.1% applicable to the insurance intermediaries, the contribution for exercising the supervision and the general insurance activity (0.4%) namely for the life insurance (0.3%), contribution for exercising the supervision and insurance activity for the control of the motor vehicle civil liability (1%): Lei 64,427,819, degree of achievement of 99.6% compared to the budgeted value.

In 2019, the revenues from these sources generated approximately 88.3% of the total FSA revenues.

Revenue from other activities, including related fees, fees for authorization/endorsement/approval/attestation/withdrawal of authorization, fees for registration/registration/maintenance/cancellation, fees/charges/fees for monitoring and other fees/charges as they stand provided in annex no. 3 to *Regulation no. 16/2014 regarding the income of the Financial Supervisory Authority, with subsequent amendments and completions*, recorded a total value collected in 2019, amounting to Lei 7,143,041, graduated by achieving 112.02%. Income from these sources generated, in 2019, approximately 3.5% in total FSA cash in the same period.

Revenue from fines, applied for entities belonging to the Insurance Reinsurance Sector, amounted, during the analysis period, to Lei 159,829.

The cumulated "property income", "interest income" and "other income" chapters recorded,

in the analysed period, a value of Lei 6,670,467, representing a degree of achievement compared to the forecasted level of the year of 89.24%. This chapter includes: financial income obtained from placing FSA liquid assets in deposits, government securities: Lei 5,157,018, income from renting spaces owned by FSA: Lei 809,897, other income: Lei 703,552 (imputations, penalties, refund of guarantees paid by the former CNVM in the case of FNI).

The execution of expenditure as of 31 December 2019

The total expenses achieved in 2019 amounted to Lei 169,704,015 - representing a degree of achievement of 83.17% compared to the provisions of the related period. The expenses carried out until December 31st, 2019 have the following structure:

Statement of FSA expenses in 2019

-lei-

Article	Annual 2019 forecasts	2019 budget execution	Achievement degree compared to the forecasts
%	1	2	3=2/1
Expenses with the personnel	166,493,353	149,687,025	89.91
Expenses with assets and services	18,916,395	12,906,987	68.23
International transfers	7,088,220	7,076,577	99.84
Capital expenses	13,339,912	2,076,566	15.57
Payments carried out in the previous years and recovered in the present year	-1,803,128	-2,043,140	113.31
TOTAL EXPENSES	204,034,751	169,704,015	83.17

The personnel expenses, amounting to Lei 149,687,025 (89.9% in the budget provisions) represent basic salaries and other rights granted according to the Collective Labour Agreement in force, to which the institutional contributions are added. The personnel expenses, in 2019 represented approximately 88.2% of the total expenses of the authority, namely approximately 72.9% of the total revenues gathered.

Expenses on goods and services registered a total amount of Lei 12,906,987, a value that represents 68.2% in the budget provisions. Among the most important expenses in this chapter we mention:

- purchases of office supplies, cleaning supplies, fuel, utilities, telephony, internet, security services, car service, thermal power plant maintenance services, archiving services, press agencies (Bloomberg, Reuters): Lei 5,867,088, representing 61.9% of the amount provided for this period;
- internal and external travel: Lei 929,747, representing 61.4% in the amount allocated for this destination (transport and other unforeseen expenses, excluding travel allowance);
- consultancy and expertise: Lei 436,586, representing 46.6% in the budget provisions and consisting in the payments made based on the MTPL tariff consultancy agreements, legal aid, external financial audit services;
- other expenses: Lei 4,458,106, representing, for the most part, payments related to the rent given by FSA to EximBank: Lei 3,410,811 (76.5%), expenses for measures through protocol and represent: Lei 416,241, other costs.

Expenditures on goods and services represented, in 2019, approximately 7.6% of the total expenses of FSA in the same period.

The international transfer, representing contributions to the international bodies of which FSA is part of (ESMA, EIOPA, IOSCO, IAIS, IOPS), amounted to Lei 7,076,577 (approximately 4.2% in the total expenses of FSA), within the limit budget approved with Lei 7,088,220.

The capital expenditures, amounting to Lei 2,076,567 represent approximately 1.2% of the total expenses of the FSA, i.e. a commitment degree of 15.6% in the budgeted amount. This amount represents a total payment value, in 2019, for the continuation of projects to develop a centralized and decentralized IT infrastructure, consisting of:

- acquisitions of hard equipment and other IT equipment - Lei 895,730;
- office equipment, furniture – Lei 163,397;
- licenses and acquisitions / software developments – Lei 1,008,062;
- capital repairs - works of Admiral Bălescu headquarters – Lei 9,377.

2019 CURRENT SURPLUS (CURRENT INCOME CASHED IN - PAID EXPENDITURES)

The current surplus for 2019 is **Lei 35,526,482**.

The realization of this surplus is mainly the result of ensuring an adequate collection for the income (degree of achievement 100%), given the saving for the total expenses (-16.8%), result of savings for all components of forecasted expenditure (for example, degree of execution of 17.2% of the investment projects - capital expenditure).

FSA audit report for 2019



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RAPORTUL AUDITORULUI INDEPENDENT INDEPENDENT AUDITOR'S REPORT

Către Consiliul Autorității de Supraveghere Financiară
 To the Board of the Financial Supervisory Authority

Raport asupra auditului situațiilor financiare Report on the Audit of the Financial Statements

Opinia Opinion

Am auditat situațiile financiare anexate ale Autorității de Supraveghere Financiară ("ASF") cu sediul social în București, Splaiul Independenței Nr.15, Sector 5, identificată prin codul unic de înregistrare fiscală 31588130, care cuprind bilanțul la data de 31 decembrie 2019, contul de rezultat patrimonial, situația modificărilor în structura activelor nete/capitalurilor proprii, situația fluxurilor de trezorerie, contul de execuție a bugetului pentru exercitiul financiar încheiat la această dată și anexe (Disponibil din mijloace cu destinație specială, Piați restante, Situația activelor și datorilor financiare ale instituțiilor publice din Administrația centrală, Situația activelor fixe amortizabile, Situația activelor fixe neamortizabile) cât și un sumar al politicilor contabile semnificative și alte informații explicative incluse în "Raportul privind situațiile financiare ale Autorității de Supraveghere Financiară încheiate la data de 31 decembrie 2019".

We have audited the accompanying financial statements of Financial Supervisory Authority („ASF”), with official head office in Bucharest, Splaiul Independenței Nr.15, Sector 5, identified by sole fiscal registration number 31588130, which comprise the balance sheet as at 31 December 2019, 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, 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 regarding financial statements of Financial Supervisory Authority as at as at 31 December 2019".

În opinia noastră, situațiile financiare anexate oferă o imagine fidelă și justă a poziției financiare a ASF la data de 31 decembrie 2019, ca și a performanței financiare și a fluxurilor de trezorerie ale acesteia pentru exercitiul financiar încheiat la această dată, în conformitate cu Ordinul Ministrului Finanțelor Publice nr. 1917/2005, cu modificările și clarificările ulterioare și cu politicile contabile descrise în „Raportul privind situațiile financiare ale Autorității de Supraveghere Financiară încheiate la data de 31 decembrie 2019".

In our opinion, the accompanying financial statements give a true and fair view of the financial position of ASF as at 31 December 2019, 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 with all subsequent modifications and clarifications and the accounting policies described in the "Report regarding financial statements of Financial Supervisory Authority as at as at 31 December 2019".

Traducerea în limba engleză are doar scop informativ. Traducerea raportului trebuie citită împreună cu situațiile financiare, toate în anexe. În situațiile în care informațiile, punctele de vedere și opiniile sunt susceptibile de interpretare, versiunea originală în limba română a raportului trebuie prevăzută acestui traduceri.
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Bazele opiniei
Basis for opinion

Evidențierea unor aspecte
Emphasis of matter

Atragem atenția asupra notei 4 "Provizioane pentru riscuri și cheltuieli" din „Raportul privind situațiile financiare ale Autorității de Supraveghere Financiară încheiate la data de 31 decembrie 2019”, care prezintă detaliile privind litigiile prin care se solicită ASF acordarea de despăgubiri. Conducerea ASF a evaluat situația și a înregistrat un provizion pentru litigiul în valoare de 33.702 mii lei la 31 decembrie 2019 (31.514 mii lei la 31 decembrie 2018). Date fiind complexitatea și incertitudinile privind rezultatul acestor litigii, estimarea ASF ar putea să difere de obligațiile efective rezultate în urma finalizării acestora. Opinia noastră nu este emisă cu rezerve în legătură cu acest aspect.

We draw attention to Note 4 "Provisions for risks and expenses" from "Report regarding financial statements of Financial Supervisory Authority as at 31 December 2019", which presents details on litigations for which ASF was requested to pay damages. The ASF management assessed the matter and has recorded a provision for litigation of 33,702 thousand RON as at 31 December 2019 (31,514 thousands RON as at 31 December 2018). Given the complexity and uncertainties related to the outcome of these litigations, the ASF's estimate may differ from actual obligations resulting from the finalization of these legal disputes. Our opinion is not qualified in respect of this matter.

Noi am efectuat auditul conform Standardelor Internaționale de Audit (ISA). Responsabilitățile noastre conform acestor standarde sunt descrise mai detaliat în secțiunea „Responsabilitățile auditorului pentru auditul situațiilor financiare” din raportul nostru. Suntem independenți față de ASF conform Codului etic al profesioniștilor contabilii emis de Consiliul pentru Standarde Internaționale de Etică pentru Contabili (codul IESBA) și conform cerințelor etice care sunt relevante pentru auditul situațiilor financiare în România și ne-am îndeplinit responsabilitățile etice conform acestor cerințe și conform Codului IESBA. Considerăm că probele de audit pe care le-am obținut sunt suficiente și adecvate pentru a constitui baza pentru opinia noastră.

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 the 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.

Responsabilitățile conducerii și ale persoanelor responsabile cu guvernanta pentru situațiile financiare
Responsibilities of Management and those charged with governance for the Financial Statements

Conducerea ASF are responsabilitatea întocmirii și prezentării fidèle a situațiilor financiare în conformitate cu Ordinul Ministrului Finanțelor Publice nr. 1917/2005, cu modificările și clarificările ulterioare, și pentru acel control intern pe care conducerea îl considera necesar pentru a permite întocmirea de situații financiare care sunt lipsite de denaturări semnificative, cauzate fie de fraudă, 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 with all subsequent modifications and clarifications, 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.

Traducerea în limba engleză are doar scop informativ. Traducerea raportului trebuie citită împreună cu situațiile financiare, luate în ansamblu. În situațiile în care informațiile, punctele de vedere și opiniile sunt susceptibile de interpretare, versiunea originală în limba română a raportului nostru prevalează acestei traduceri.
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La întocmirea situațiilor financiare, conducerea este responsabilă să evalueze abilitatea ASF de a-și desfășura activitatea conform principiului continuității activității și să prezinte, dacă este cazul, aspectele referitoare la continuitatea activității și folosirea principiului continuității activității, mai puțin în cazul în care conducerea intenționează să lichideze ASF sau să înceteze activitatea sau nu are nicio alternativă reală decât să procedeze astfel.

In preparing the financial statements, management is responsible for assessing the 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 financiară a ASF.

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

Responsabilitățile auditorului pentru auditul situațiilor financiare **Auditor's Responsibilities for the Audit of the Financial Statements**

Obiectivele noastre constau în obținerea unei asigurări rezonabile privind măsura în care situațiile financiare, luate în ansamblu, nu conțin denaturări semnificative cauzate de eroare sau fraudă și de a emite un raport de audit care să includă opinia noastră. Asigurarea rezonabilă reprezintă un nivel ridicat de asigurare, însă nu este o garanție că un audit desfășurat în conformitate cu standardele ISA va detecta întotdeauna o denaturare semnificativă, dacă aceasta există. Denaturările pot fi cauzate fie de fraudă fie de eroare și sunt considerate semnificative dacă se poate preconiza, în mod rezonabil, ca acestea, atât la nivel individual sau luate în ansamblu, vor influența deciziile economice ale utilizatorilor, luate în baza acestor situații 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 în conformitate cu standardele ISA, ne exercităm raționamentul profesional și ne menținem scepticismul profesional pe întreg 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:

- Identificăm și evaluăm riscurile de denaturare semnificativă a situațiilor financiare, cauzate fie de fraudă fie de eroare, stabilim și efectuăm proceduri de audit care să răspundă acestor riscuri și obținem probe de audit suficiente și adecvate pentru a constitui o bază pentru opinia noastră. Riscul de nedetectare a unei denaturări semnificative cauzate de fraudă este mai ridicat decât cel de nedetectare a unei denaturări semnificative cauzate de eroare, deoarece fraudă poate include complicitate, falsuri, omisiuni intenționate, declarații 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.*

Traducerea în limba engleză are doar scop informativ. Traducerea raportului trebuie citită împreună cu situațiile financiare, luate în ansamblu, în situațiile în care informațiile, punctele de vedere și opiniile sunt susceptibile de interpretare; versiunea originală în limba română a raportului nostru prevalează asupra acestei traduceri.
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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 the 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.*



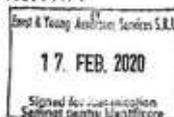
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Comunicam persoanelor responsabile cu guvernanta, printre alte aspecte, obiectivele planificate si programarea in timp a auditului, precum si constatările semnificative ale auditului, inclusiv orice deficiente semnificative ale controlului intern, 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
Bd. Ion Mihalache 15-17, etaj 21, Bucuresti, Romania
15-17, Ion Mihalache Blvd., floor 21, Bucharest, Romania
Inregistrat in Registrul Public electronic cu nr. FA77
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Name of the Auditor/ Partner: Alina Dimitriu
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17 februarie 2020
17 February 2020



FINANCIAL
SUPERVISORY
AUTHORITY

ANNUAL REPORT

2019



FSA objectives for 2020



FSA objectives for 2020

The year 2020 began with the emergence of a new financial market risk related to the rapid spread of the new coronavirus, with significant effects on economic activities. In this context, the primary objective of the Financial Supervisory Authority is to mitigate the impact of the COVID-19 pandemic on the non-banking financial stability market and, implicitly, to simultaneously protect the consumers.

In line with the current situation, several measures to sustain the non-bank financial markets were taken in the first part of 2020:

- ▶ Reduction by 25% of all tariffs, fees, quotas and contributions due to FSA by entities operating in the monitored market, starting with April 1st 2020 during the emergency state, regardless of its extension. The measure applies to entities authorized, regulated and/or supervised by the FSA, as well as natural and/or legal persons requesting the FSA, to issue individual documents or to provide services. In this sense, it was issued *Regulation no. 3/2020 for the regulation of some measures regarding the application of the FSA Regulation no. 16/2014 regarding the income of the Financial Supervisory Authority during the state of emergency generated by the COVID-19 outbreak*;
- ▶ Publication of *Regulation no. 5/2020 for the adoption of measures relating to the holding of general shareholders' meetings during the emergency state generated by the COVID-19 outbreak* which aims to avoid physical meetings and to ensure that General Shareholders meetings can be held by means of distance communication;
- ▶ *Issue of the Norm no. 21/2020 for the extension of some deadlines regarding the reports, publication of public information and transmission of other documents to the Financial Supervisory Authority in the field of insurance, following the situation generated by COVID-19 and the institution of the emergency state in Romania*, at the EIOPA's recommendations on the flexibility of the authorities on deadlines for submitting the monitoring report and publication of some information;
- ▶ Possibility of private pension funds managers to invest in government securities issued by the Public Finance Ministry, EU Member States or belonging to the European Economic Area for more than 70% (the change being a temporary one – for a year since the norm entry into force). In this sense, FSA has issued the *Norm no. 22/2020 on the temporary modification of the maximum limit applicable to the investment of the private pension fund in government securities*;
- ▶ Adopting *Instruction no. 1/2020 on the submission of the reports and other documents for FSA while applying the exceptional measures generated by the COVID-19 crisis* through which, while applying the exceptional measures, the entities authorized, regulated and/or monitored by FSA will send correspondence, reports, information and other documents provided for by the applicable law, to the authority, only in electronic format;
- ▶ Intensifying the communication with the regulated entities, following the measures related to the updating and transmission of the Business Continuity Plans that would include the COVID-19 impact on their business;

- ▶ Communication and collaboration with other public and central government authorities, as well as coordination with European financial market bodies, in particular the European Securities and Markets Authority (ESMA) and the European Insurance and Occupational Pensions Authority (EIOPA), for a convergent approach in the field of legal prerogatives in order to maintain an orderly development on the market;
- ▶ Warning companies, whose securities are traded on the capital market, of the necessity to make arrangements for their own and issuer-specific valuations and take all necessary measures in accordance with the recommendations made by the authorities to prevent/limit the spread of COVID-19.

Following the events, the extraordinary lockdown restrictions and deterioration of main economic indicators, on the background generated by the COVID-19 crisis, FSA developed two forms containing the signalling of the deterioration of some risks:

- ***The risk form on signalling the deterioration of the main risks, with a negative impact on very short terms issued on March 13th 2020***, included the presentation of the main risk trends that may impact the market and entities monitored by FSA together with a set of measures and recommended measures that may ensure that there are no consequences or effects that these risks may cause. Thus, some measures were adopted by the FSA at the sector level (extension/prorogation of deadlines), others at the integrated level (sending exclusively in electronic format the correspondence/request/report, cutting by 25% all fees/charges due to FSA).
- ***The risk form on signalling the increase of cybernetic risk, issued on March 24th 2020*** together with a set of cybersecurity measures and recommendations. On this basis, warnings have been sent to monitored entities and, in addition, a press release was issued on the FSA website to inform the general public, in general, and the consumers of the non-banking financial products, in particular.

The recommendations for reducing the risk of cyber use were the following:

- ▶ Notification of entities on the increase of cyber risk and recommendation through an implementation of appropriate measures through prevention/management, especially in situations where staff is still working remotely;
- ▶ Recommendation to the addressed entities authorized, regulated and/or monitored by FSA of at least the following measures:
 - setting up access accounts and setting solid access password, preferably with two factors by authentication;
 - identification of additional risks and ways to manage if it allows the staff to use working devices (computer/laptop/ phone) - control and visibility by the entity of these devices is more limited and involves robust solutions of login;
 - training staff on phishing risks and on detecting typical email signals depending on the type of phishing, as well as alerting their customers on how to communicate/confirm the services provided;
 - training staff in communication /reporting, including communication channel, in the shortest possible time of cyber security problems or cyber threats;

- writing instructions/user guides for remote applications and testing them before use, if they are different compared to those used for the headquarters/office;
 - activating and configuring the encryption of the data used on computers/telephones used for teleworking to be protected in case of losses/theft of the device;
 - identification tools that may be used for blocking unauthorized access to his work by devices, for deleting or copying stored in the thesis.
- ▶ The review/identification of the vulnerabilities together with the external IT auditor/provider of the outsourced IT services and the identification of ways of addressing operational risks in accordance with the requirements of *Norm no. 4/2018 regarding the management of the operational risk generated by the information systems used by the authorized/authorized/registered entity, regulated and/or monitored by the Financial Supervisory Authority*;
- ▶ FSA notification regarding any cyber incident that occurred in the current activity of the regulated entity.

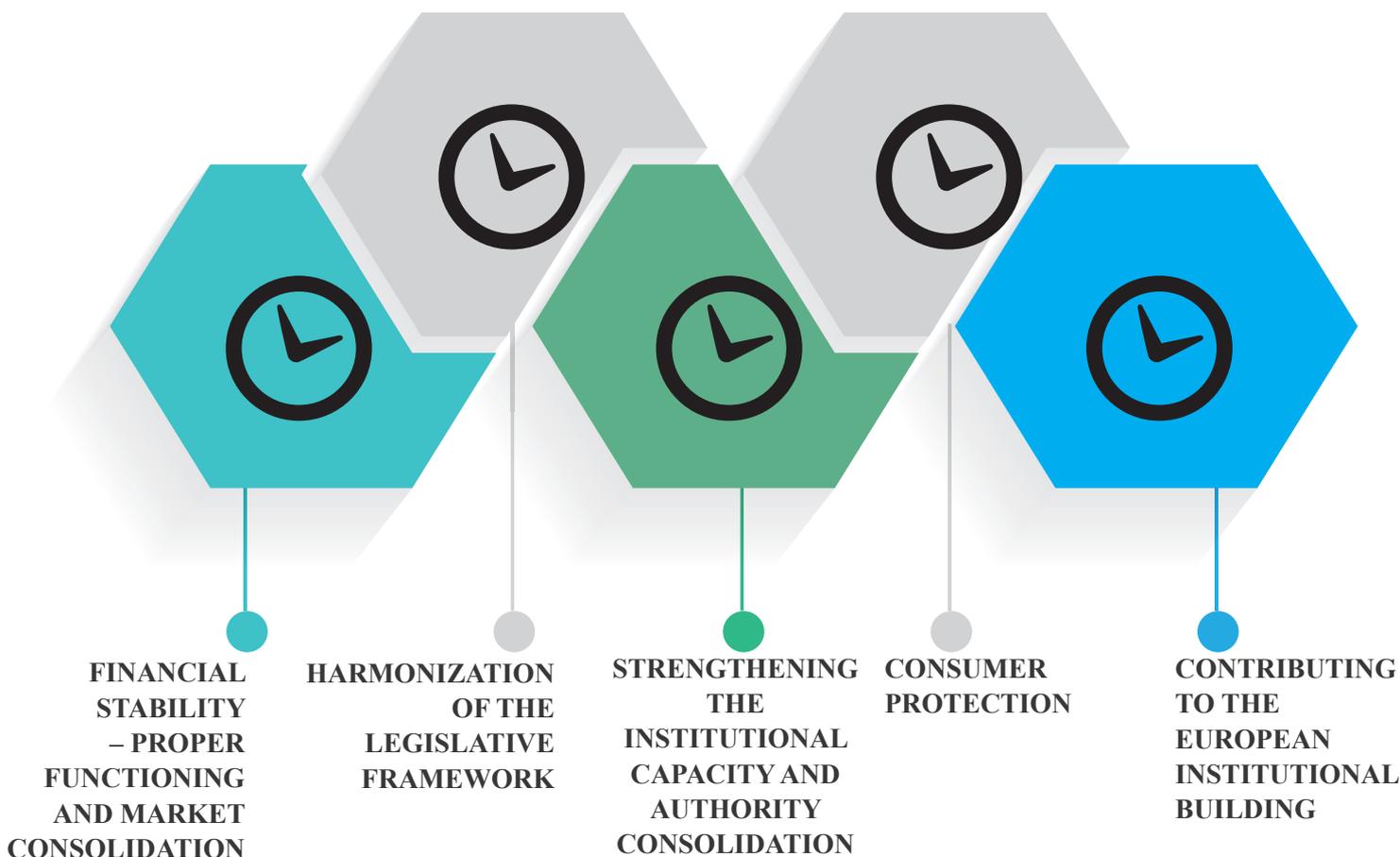
In 2020, the FSA will continue to take the necessary decision-making measures to minimize the risks posed by the COVID-19 pandemic on the non-bank financial market corroborated with general objectives set out in the 2019-2023 Program and specific annual objectives and activities, related to each sector.

For the next four years, **the activity program of the Financial Supervisory Authority** seek to fulfill its strategic role by ensuring a proper functioning of the monitored market, but also by correlating the national legislation provisions with the European legislation and international best practices in the field, with the main purpose of increasing investor confidence in the non-financial markets, but also its protection, as well as improving the quality of actions and services within the non-banking financial markets.

Thus, the strategic objectives are limited to the competencies and powers conferred by the law on the Financial Supervisory Authority:

- ensuring the stability, competitiveness and proper functioning of the financial instrument market, promoting confidence in these markets and investing in financial instruments, as well as ensuring a protection for the operators and investors against unfair, abusive and fraudulent practices;
- promoting of the stability in the insurance activity and the defence of the rights of the insured;
- ensuring the efficient functioning of a private pension system and protecting the interests of participants and beneficiaries.

In full correlation with the above mentioned strategic objectives, through specific activities carried out at the level of each sector of activity, as well as at the integrated level, the FSA ensures the fulfillment of the following general objectives:



FINANCIAL STABILITY – PROPER MARKET FUNCTIONING AND CONSOLIDATION

Financial stability is a permanent objective of the FSA, and its maintaining being pursued both at the level of each of the three financial sectors and at an integrated level. To this end, strengthening prudential supervision and stimulating the non-banking financial sector is a significant part of an activity within the institution framework and respond to the need of a systematic approach, which will be given greater importance in 2020 as well.

The application of European principles of supervision convergence and implementation of the best international standards in the field, linked to general objectives imposed on the authorities at ESMA and EIOPA level, can be summarized as follows:

Improving the quality, efficiency and coherence of supervision, by:

- ▶ ensuring convergence of supervision practices within the three non-banking financial sectors - adoption of a unitary set of supervision policies and practices;
- ▶ development of techniques, procedures and practices for risk-based supervision.

Identification, assessment, mitigation and management of risks and threats to the stability of the non-banking financial market, with a focus on:

- ▶ monitoring financial activities and innovations and implementing of interventions mechanisms on financial products in emergency situations;
- ▶ risk assessment of the non-banking financial markets.

The increased adoption of FinTech/InsurTech innovation in the financial sector poses challenges for regulators and supervisory authorities. In order to keep up with innovation in the field of financial services, for the identification of the measures that need to be taken in the matter of regulation and supervision, as well as for supporting the development of new business models, products and services, **FinTech Hub** and **InsurTech Hub** were launched. Thus it is ensured an efficient communication with regulated entities, as well as with other companies or interested persons, so that the opportunities and risks generated by FinTech are identified, as well as optimal solutions.

In the same context, in order to know the new developments in the field of financial innovation, FSA participate in the working groups set up for this purpose at the level of their European institutions, namely in **InsurTech TaskForce** within the **European Insurance and Occupational Pensions Authority (EIOPA)** and **European Forum for Innovation Facilitators (EFIF)**.

In order to support the actions meant to ensure financial stability, both the insurance – reinsurance sector and the capital markets sector developed projects regarding the **consolidation of the supervision function**, whose implementation continues in 2020.

From a **macroprudential perspective**, FSA will continue to identify systemic non-banking financial institutions and structures, to conduct risk analysis, to create methodologies and quantitative tools for identifying and assessing risks, early prevention systems and instruments for testing at adverse conditions.

At the national level, the FSA participate in the activities of the National Committee for Macroprudential Oversight, contributing to the achievement of its objectives, namely safeguarding financial stability through strengthening the ability of the financial system to resist to shocks and reducing systemic risk accumulation, thus ensuring a sustainable contribution of the financial sector for economic growth. Therefore, FSA aims to implement the recommendations and the applicable warnings, analyses, develops and re-evaluates periodically elements of macroprudential policy in its area of competence, including in terms of intermediate objectives and macroprudential policy instruments.

Undoubtedly, the FSA intends in the following years to fulfill the objective of **stimulating the non-banking financial markets development**. In this regard, **the objectives aimed at in the three areas of financial supervision** are as follows:

Insurance market

In order to ensure effective oversight of the market insurance, it is very important for all participants involved in the activity of this market to operate optimally within an effective risk management framework. Thus, for an implementation in accordance with the objectives set out in the Solvency II Directive, but also with the general objectives of the authority, **at the level of the insurance-reinsurance sector, it is taken into account the following objectives and activities for 2020:**

OBJECTIVE 1

- ▶ identification and assessing trends and developments that could provide opportunities, challenges and risks in the insurance sector in accordance with its regulating activity;

- ▶ ensuring the legal framework regarding the treatment applied to the cross-border activity of the insurance companies in the United Kingdom, in case of a Brexit without agreement, in order to minimize the damages caused to the contractors and beneficiaries in Romania who have signed insurance agreements with entities in the United Kingdom;

OBJECTIVE 2

OBJECTIVE 3

- ▶ ensuring the training, consolidating and certifying mechanism for the professional skills and strengthening the supervising and monitoring mechanism of the compliance with the professional requirements in the field of insurance and/or reinsurance;

- ▶ systematization, unification and correlation of primary and secondary legislation, in terms of facilitating the access to information and the development of the monitoring and correction means of the insurance and reinsurance companies, as well as ensuring convergence with regulatory and supervisory practice at European level;

OBJECTIVE 4

OBJECTIVE 5

- ▶ efficient settlement of requests submitted while obtaining the legal approvals.

Capital market

The specific targets for 2020 fall under the main goal of supporting the development of capital market in order to create a real alternative to finance the economy.

OBJECTIVE 1

- ▶ aligning the supervision and inspection with the international best practice;

- ▶ transparency and supervision improvement of the entities from the conduct/prudential perspective, by strengthening the risk-based supervisory framework;

OBJECTIVE 2

OBJECTIVE 3

- ▶ improving the dialogue with market entities and supporting them in the correct implementation of the obligations arising from the legislation in force;

- ▶ implementation of the *Single Electronic Format* project (ESEF) Starting with the 2020 financial year, all annual financial statements of issuers whose shares are traded on a regulated market must be prepared in the language of xHTML or Extensible Hypertext Markup Language;

OBJECTIVE 4

OBJECTIVE 5

- ▶ supporting the development of the market infrastructure - the establishment of Central Counterparty - for increasing the liquidity and maintaining the status as emerging market.

Private pension market

Given that the **supervision and inspection activity of entities in the private pension sector** has the role of preventing, identifying and/or remedying the situations that may harm the interests of the participants and beneficiaries of the private pension funds, **the main objectives for 2020** are:

OBJECTIVE 1

- ▶ protecting the interests of the participants and beneficiaries by ensuring the efficient functioning of the private pension system and ensuring access to appropriate information;

- ▶ protection of the sustainability and stability of private pension by maintaining a low risk on the private pension fund market;

OBJECTIVE 2

OBJECTIVE 3

- ▶ drafting secondary legislation for the application of the provisions of the *Law on occupational pensions* and for the transposition of *Directive (EU) 2016/2341 of the European Parliament and of the Council dated December 14th 2016 on the activities and supervisory institutions for the provision of occupational pensions (IORPII)*;

- ▶ authorization of the entities that will carry out the activities within the occupational pension system;

OBJECTIVE 4

OBJECTIVE 5

- ▶ continuing to adapt the secondary regulatory framework in order to develop the privately managed and voluntary pension system..

HARMONIZATION OF THE LEGISLATIVE FRAMEWORK

Aligning the national legislation related to the non-bank financial markets with the European legislation and standards represents a necessity and challenge as well, having the purpose of simplifying and harmonizing the primary and secondary legislation in order to lead to a fair and healthy functioning of the markets. The process of legislative harmonization is extensive, continuous and aims at reviewing, amending and supplementing the legislative provisions in order to consolidate and create an adequate regulating framework, so that the functioning and transparency of the financial market exist within the correct parameters of European and international standards.

In 2020, we continue to improve the regulatory framework, in order to ensure some firm and sound premises for the development of the supervised markets. In this regard, the regulation activities program involves the issuance and, if necessary, the adoption of normative act projects included in the **FSA activity program for 2020**.

STRENGTHENING THE INSTITUTIONAL CAPACITY AND CONSOLIDATION OF AUTHORITY

The objectives assumed within the FSA strategy, as well as within the activity program, support and strengthen the mission that the Authority has within the Romanian financial system.

The measures we intend to implement in 2020 aim at the institutional development in terms of quality and concern the **Strengthening the Institutional Capacity of the FSA**.

The objectives and activities envisaged for this purpose relate to the following:

- ▶ completion of an integrated framework at the authority level, with aligned and modern, accessible and efficient legislation;
- ▶ implementation application and of the risk based supervision, but also conduct risk supervision;
- ▶ revision of the primary and secondary legislative framework, in order to harmonize with the European legislative framework;
- ▶ strengthening the protection function of the consumers;
- ▶ staff development and training;
- ▶ improving IT infrastructures, centralizing the financial reporting and building a database connected with all the FSA organizational structures;
- ▶ consolidation of the organizational mechanisms by finalizing the implementation tools for managing the integrity principles and standards;
- ▶ consolidating the operational framework at the authority level regarding the protection of the personal data by implementing some additional technical measures to ensure a high protection level of these data categories and, implicitly, the rights of the concerned individuals.

One of the constant activities of the Authority, which contribute to the support of the internal administration of the FSA in the implementation of the strategic evolution, refers to the project portfolio management, activity that monitors and contributes to the proper functioning of all projects launched by the FSA. All the approaches and activities circumscribed to the project portfolio management have as objective the transparency and proper informing of all those involved, so that the decision-making process regarding the ongoing projects to be easy, supple and in full knowledge of the facts.

The personal data and individual rights' protection have become in the last year a priority for any

institution, not only through the obligation to comply with the new regulations, but, especially, by promoting solutions and good practices in this field. Doubled by the role of FSA in the regulated markets, the adoption of technical and organizational measures necessary for ensuring a high level by protection of this data category as a component of the critical infrastructure of an institution represents a priority objective of the authority for 2020, in terms of strengthening the institutional capacity.

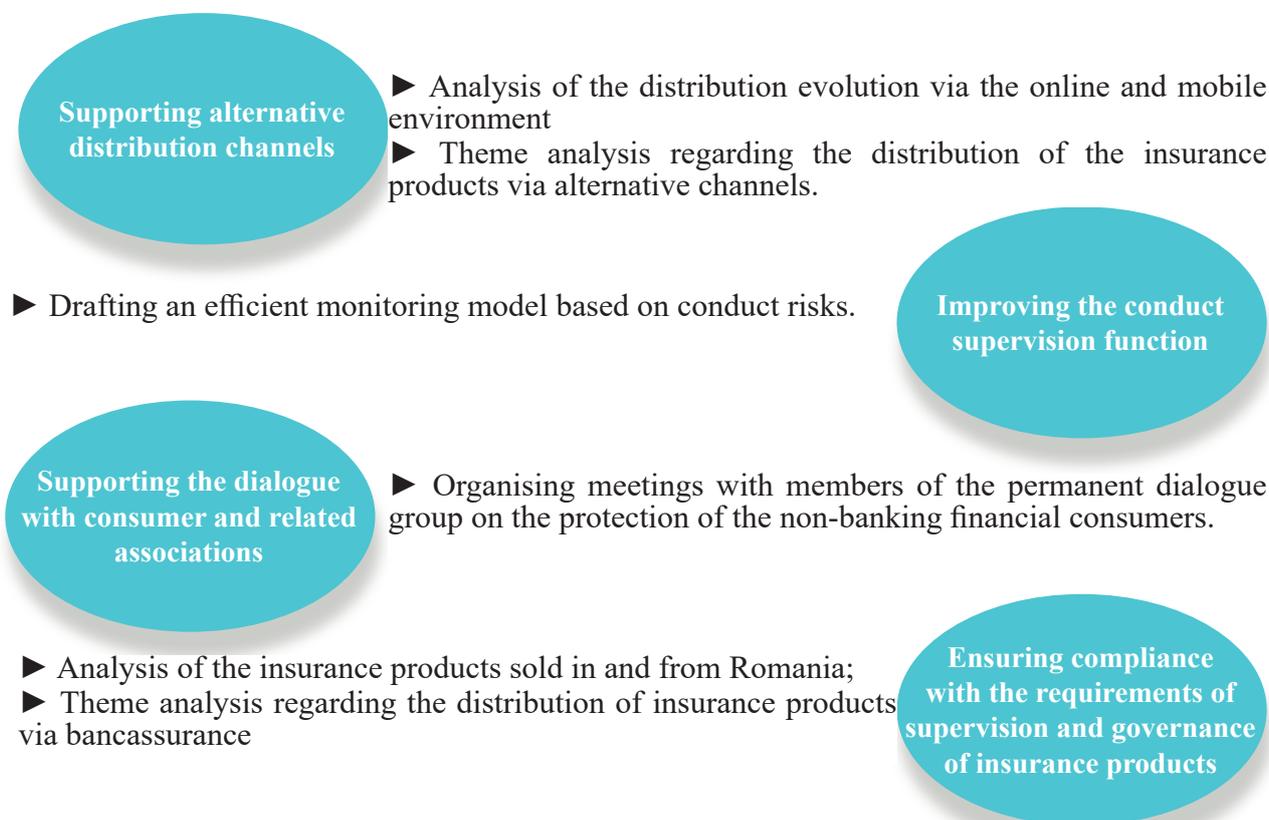
From the point of view of human resources, to strengthen a modern organizational culture, to ensure the fulfilment of the missions and strategic objectives of the FSA, as well as the alignment of best practice for the management and teamwork, we propose to repeat a study on the organizational culture in 2020.

In order to identify and develop the potential, skills and professional competencies of the FSA staff, in 2020 actions will be taken in order to implement the **standardized tools and the methodology specific to the bodies for competences assessments** (*Assessment and Development Center for Evaluation and Development*).

CONSUMER PROTECTION

The consumer protection represents an intrinsic object of the FSA activity, considering the role the Authority has in supporting the stability and proper and correct functioning of the non-banking financial markets. The consumer is in the centre of attention of all actors in this market, and for FSA, as monitoring authority, it represents a central point of the objectives and activities for the regulation and monitoring.

For 2020, the specific objectives, as well as the measures and activities which we consider in order to have a real and efficient protection of the consumers of the financial products and services are detailed as follows:



Improving the supervisory function of intermediaries

- ▶ Drafting an efficient monitoring level based on conduct risks.

- ▶ Organizing meetings with group members for the presentation and debate of existing technologies on the market, as well as for the presentation of the IT designer developed by profile companies, applicable to the insurance market.

Supporting the development of projects within the Insurtech Hub group

CONTRIBUTION TO THE INSTITUTIONAL EUROPEAN CONSTRUCTION

In 2020, FSA continues to contribute to the fulfilment of the Romanian objectives within the European bodies with attributions in the field of non-banking financial market, becoming involved, as competent authority and member of the European supervision authorities, in ensuring an efficient and solid European regulatory and supervisory framework, in order to strengthen the single market and promote consistent application of legislation at its level.

The FSA will ensure, with experts appointed in the committees and working groups of EIOPA and ESMA, as well as through high-level representation in the leadership structures of these authorities, contribution to the activities considered a priority for the objectives of EIOPA and ESMA.

Furthermore, given the proposed work program and the targets set by the European Supervisory Authorities for 2020, there are some topics of interest which the FSA takes over in the working agenda, such as:

- ▶ **Enhancing the new regulations of functioning** of the European authorities, especially regarding the consolidated competences in the field of convergence in supervision;
- ▶ Providing an increased attention to the **monitoring activity of the reported data quality** and the proper use of the collected data from the authorized entities, as a precondition for an efficient supervision based on risks;
- ▶ **Monitoring the evolution of the market in the field of financial technological innovations**, coordination and cooperation with other Member States - innovation facilitators, in order to foster the expansion of innovation in the financial sector;
- ▶ **Adequate promotion and application of MiFID II and MiFIR requirements** and cooperation with the Member State authorities in the field of investor and intermediary protection;
- ▶ **Monitoring the insurance products** distributed through the **bancassurance** channel, in order to identify the possible behavioural risks in the distribution activity;
- ▶ **Consolidation of the behaviour monitoring framework** in the insurance market, by developing new tools and procedures to ensure a risk-based and reactive approach;
- ▶ **Consolidation of the regulatory framework** to respond appropriately to market developments.

Abbreviation list

AAAS	=	The authority for State Asset Management
AIF	=	Alternative Investment Fund
AIFM	=	Alternative Investment Fund Managers
AFIASMD	=	Alternative Investment Fund Managers from other Member States carrying out the activity in Romania directly
AFIASMS	=	Branches of the alternative investment fund from other Member States carrying out the activity in Romania
AG		Non-life insurance
AIFMD	=	Directive regarding the Alternative Investment Fund managers
AML	=	Anti-Money Laundering
ARB	=	Romanian Bank Association
ASIF	=	Agents for Financial Investment Services
ASE	=	Bucharest University of Economic Studies
AV	=	Life insurance
BAAR	=	Romanian Motor Vehicle Insurance Bureau
BCR	=	Banca Comerciala Romana
BCU	=	University Central Library
BoS	=	Board of Supervisors/Board of Supervisors
BRD-GSG	=	BRD-Groupe Société Générale
BSE	=	Bucharest Stock Exchange
BVC	=	Income and Expenditure Budget
CA	=	Board of Directors
CBDF	=	Cross-border Distribution of the Investment Funds
CEIF	=	Closed-End Investment Funds
CIS	=	Collective Investment Schemes
CFA	=	Chartered Financial Analyst
CFD	=	Contracts for Difference
CFR	=	Romanian Railways
CIISI	=	Interinstitutional Council for Implementing International sanctions
CMU	=	Capital market union
CNSM	=	National Committee for Macroprudential Oversight
CNVM	=	National Securities Commission
ComFrame	=	General supervision framework
CCP	=	Central counterparty
CCPA	=	Insurance consulting and partnership centre
CRD	=	Capital requirement Directive
CRR	=	Regulation on capital requirements
CSA	=	Insurances Supervision Commission
CTF	=	Combating Terrorism Financing
CSD	=	Central Securities Depository
CSDR	=	Central Securities Depository Registry
CSSPP	=	Private Pension System Supervision Commission

CYFI	=	Child & Youth Finance International
DNT	=	Demand and need test
DOIT	=	Operation and IT Directorate
DRU	=	Human Resource Directorate
EBA	=	European Banking authority
EBRD	=	European Bank for Reconstruction and Development
EC	=	European Commission
ECB	=	European Central Bank
EFIF	=	Innovation Facilitator European Forum
EFTG	=	European pilot-project for European financial transparency
EIOPA	=	European Insurance and Occupational Pensions Authority
EMIR	=	Regulation on European Market Infrastructure
EMIR REFIT	=	Amendment of the EMIR Regulation
ESA	=	European Supervision Authorities
ESEF	=	Unique Electronic Reporting Format
ESMA	=	European Securities and Market Authority
ESRB	=	European Systemic Risk Board
ESFS	=	European System of Financial Supervision
FATF	=	Financial Action Task Force
FGA	=	Policyholders Guarantee Fund
FGDSPP	=	Private Pension System Rights Guarantee Fund
FinTech	=	Financial Technology
FIRDS	=	Financial Instruments Reference Data System
FISMD	=	Investment companies from other Member States which carry out the activity in Romania directly
FMA	=	Financial Market Authority Austria
FSA	=	Financial Supervision Authority
FNI	=	National Investment Fund
FNP	=	National Protection Fund
FoS	=	Free movement of services
FoE	=	freedom of establishment
FP	=	Fondul Proprietatea
FPAP	=	Privately Managed Pension Fund
FTSE Rus-sell	=	Financial Times Stock Exchange Russell
GIP	=	Gross Indemnities Paid
G20	=	The group of the twenty finance ministers and of the central bank governors
GMW	=	Global Money Week
GDP	=	Gross Domestic Product
IAIGs	=	Active Insurance International Group
IAIS	=	International Association of the Insurance Supervisors
IBAN	=	International Bank Account Number
ICF	=	Investor Compensation Fund
ICS	=	Capital International Standards
IDD	=	Directive on the insurance distribution

IESBA	=	Council for the International Ethic Standards for Accountings
IF	=	Investment Firms
IFS	=	Institute of Financial Studies
IFRS	=	International Financial Reporting Standards
IMM	=	Small and Medium Enterprises
INCM	=	Credit institutions from other member states
INFE	=	Financial Education International Network, OECD
INM	=	National Magistrate Institute
IMC	=	Investment Management Companies
IMF	=	International Monetary Fund
InsurTech	=	Insurance Technology
IOPS	=	International Pension Monitoring Organisation
IORP II	=	Directive (EU) 2016/2341 of the European Parliament and of the Council dated December 14th 2016 on the activities and supervisory institutions for the provision of occupational pensions (IORPII);
IOSCO	=	International Organisation of Securities Commissions
IP	=	Internet Protocol
ISA	=	Audit International Standards
IT	=	Information technology
JVI	=	Joint Vienna Institute
KID	=	Key Information Document
MAD	=	Market Abuse Directive
MAE	=	Ministry of External Affairs
MApN	=	Ministry of National Defence
MAR	=	Market Abuse Regulation
MBA	=	Master in Business Administration
MB	=	Management Board
MCR	=	Minimum Capital requirements
MFP	=	Public Finance Ministry
MTPL Directive	=	Amending the Motor Vehicle Civil Liability Directive
MiFID II	=	Directive on Markets in financial Instrument
MIFIR	=	Regulation regarding the Markets in Financial Instruments
MTPL	=	Motor Third Party Liability
NBR	=	National Bank of Romania
NFI	=	Non-banking Financial Institution
NIS	=	National Institute of Statistics
OAM	=	Officially Appointed Mechanism
OECD	=	Organisation for Economic Co-operation and Development
OEIF	=	Open-End Investment Fund
OISI	=	International Sanction Implementing Office
ONU	=	United Nations Organisations
ORSA	=	Own Risk and Solvency Assessment
OTC	=	Over-The-Counter
OUG	=	Government's Emergency Ordinance
PAD	=	Mandatory Insurance Policy against the National Disasters

PAID	=	Insurance pool against National Disasters
PEPP	=	Pan European personal pensions
PFOI	=	Individuals advisers
PFSC	=	Individuals carrying out investment consultancy
POG	=	Product Oversight and Governance
PPM	=	Mass privatising program
PRBAR	=	Romanian Patronage of Insurance-Reinsurance Brokers
PRIIP	=	(EU) Regulation no. 1286/2014 regarding documents with essential information regarding the individual investment products structured and based on insurance
RAF	=	The risk-evaluation framework
RBS	=	The risk-based supervision
ROF	=	Organisation and Functioning Regulation
RZT	=	Daily/weekly transaction report
SAB	=	Motor Vehicle Saloon Bucharest
SAIM	=	Investment management companies in other State Members
SAL-FIN	=	Alternative Disputes Resolution Entity in the Non-Banking Financial Domain
SAR	=	Insurance - Reinsurance Sector
SARIS	=	Suspensions and Restorations Instruments System
SCR	=	Solvency Capital requirements
SICM	=	Branches of the credit institutions in other Member States
SIF	=	Financial Investment Companies
SIFM	=	Financial investment companies in other Member States
SIIF	=	Financial Instrument and Investment Sector
SMT	=	Multilateral Transacting System
SRP	=	Supervisory Review Process
SRSP/SRSS	=	Structural Reform Support Program
SSAM	=	Branches of the investment management companies in other Member States
SSPP	=	Private pension system sector
TA	=	Tied Agents
STEAM	=	Set of actions Towards Establishing and Acknowledgement of the emergent Market
TRACE	=	Access to Trade Repositories
TREM	=	Transaction Reporting Exchange Mechanism, ESMA
TTT	=	Train-the-trainer
UCITS	=	Undertakings for Collective Investments in Transferable Securities
UE	=	European Union
UNSAR	=	National Union of the Romanian Insurance and reinsurance companies
UNSIAR	=	Romanian National Union of the Insurance Intermediation and Consultancy Companies
URA	=	Romanian-American University
VUAN	=	Unitary value of the net active
WB	=	World Bank
WIW	=	World Investors Week
xHTML	=	Extensible Hypertext Markup Language