AUTORITATEA DE SUPRAVEGHERE FINANCIARĂ

THE STRATEGY OF THE FINANCIAL SUPERVISORY AUTHORITY FOR 2021-2023

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INTRODUCTION

According to the powers vested in it by law, the Financial Supervisory Authority contributes to strengthening an integrated framework for the operation, stability and integrity of the capital market, the insurance-reinsurance market and the private pension market, so that the interests of consumers and beneficiaries of non-bank financial products are protected.

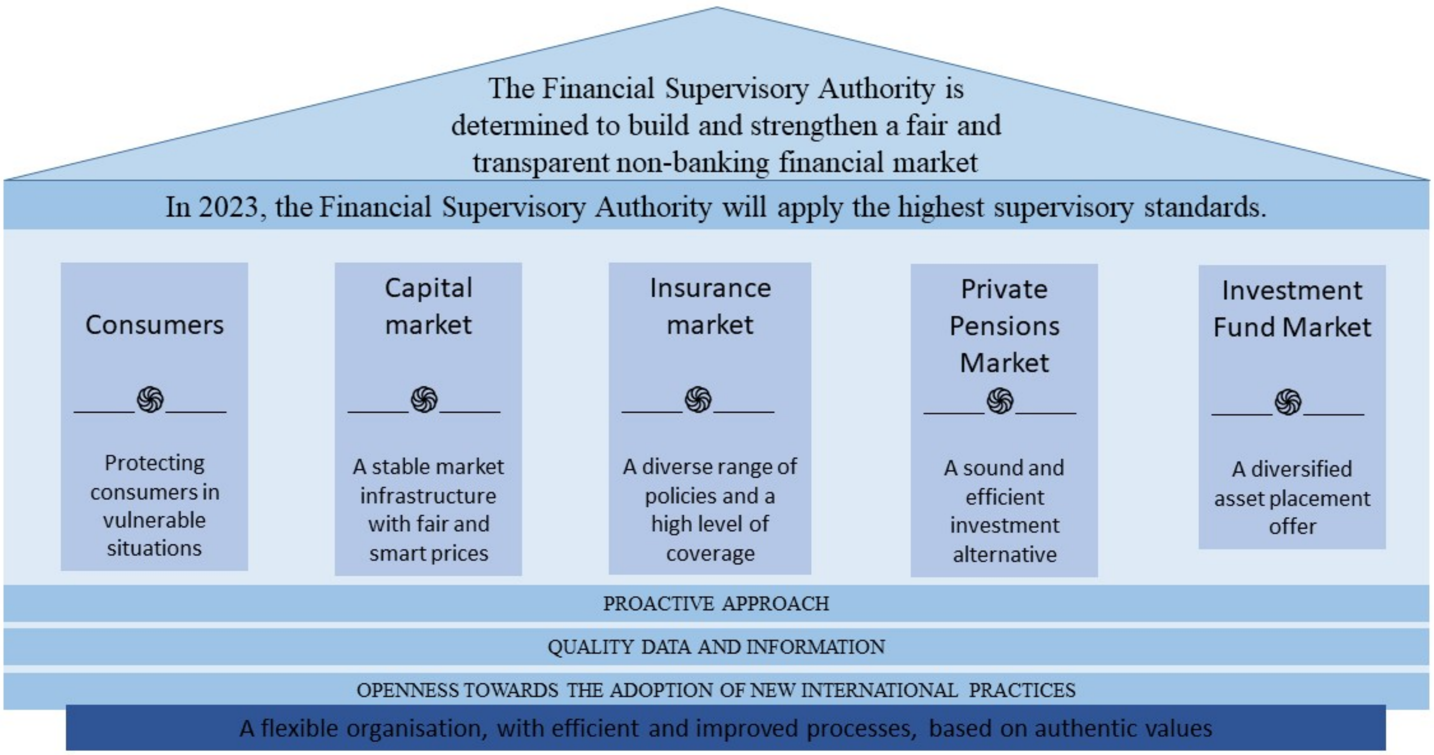
The increased uncertainties and risks to the development and stability of the global economy, caused by the adverse effects of the Covid-19 pandemic, but also by the restrictive measures applied at national and European level to limit its spread, force us to continuously and considerably adapt the way we operate, raise our professional standards and increase the speed of response at institutional level. The Covid-19 crisis has stepped on the gas with the use of technology in all processes and activities of the authority, leading to a repositioning and rethinking of institutional priorities and objectives.

In order to respond to the challenges related to emerging risks and provide the optimal measures to ensure confidence among financial markets, the ***Strategic objectives for 2021 - 2023*** have been reviewed and updated, in close correlation with the latest policies adopted at European level: the new Capital Markets Union Action Plan and the integration of financial markets, sustainable development, digitalization and technological innovation in the financial services sector.

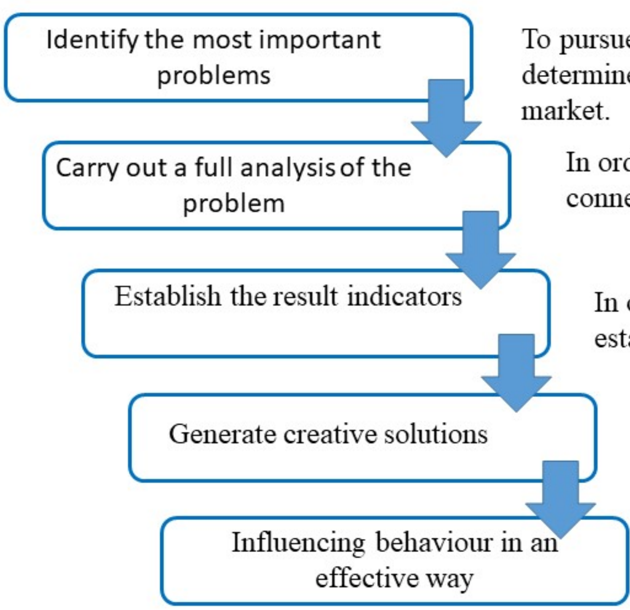
Also, annexed to the multiannual strategy, the ***Activity Program for 2021*** includes those objectives and specific actions that we propose for the coming year, aimed at promoting financial stability, ensuring cross-sectoral convergence, harmonizing the regulatory framework and strengthening supervisory functions, as well as continuing the process of strengthening the institutional capacity, in line with the measures, practices and strategic priorities promoted at the level of the European authorities ESMA and EIOPA.

Therefore, both the strategic objectives and the activity program are adapted to the new realities and unprecedented challenges brought by the Covid-19 pandemic and aim at fulfilling the strategic role of the institution by ensuring the proper functioning of the supervised markets, but also by linking national legislative provisions with European legislation and best practices in the field.

Strategy of the Financial Supervisory Authority



Supervisory strategy: identifying the most important issues and how to address them



To pursue the main goal: The Financial Supervisory Authority is determined to strengthen a fair and transparent non-banking financial market.

In order to have a complete understanding of the issue: size, scope, connections, complexity, purpose, causes etc.

In order to be able to measure the success of the implementation of the established measures.

Because a combination of individual (customized) intervention and measures and standard surveillance tools is needed.

Because applying the supervision measures is a tool within the authority and not a purpose.

SECTION I - STRATEGIC OBJECTIVES FOR 2021 - 2023

STRATEGIC OBJECTIVE 1 - STRENGTHENING THE FINANCIAL STABILITY, SUSTAINABILITY AND RESILIENCE OF NON-BANK FINANCIAL MARKETS

1.1. Financial stability and macroprudential policy - Risks and vulnerabilities in the context of the Covid-19 crisis

Financial stability describes the state of the financial system that enables it to withstand shocks, without significant disruption or impairment of its financial intermediation function, and to continue to provide financial services and products needed by entities and activities in the real economy. Financial stability is affected when one or more systemic risks materialise.

The Financial Supervisory Authority ensures the appropriate framework for the supervision and efficient operation of financial markets in the financial instruments and investment, insurance and reinsurance sectors and private pension system. The Authority's mission is based on protecting the interests and rights of consumers of financial products specific to non-banking markets, developing these markets and ensuring their transparency and systemic stability.

There is no doubt that the Covid-19 crisis has affected all business segments, financial markets being no exception. Activity in the markets regulated and supervised by the Financial Supervisory Authority has been adapted, transformed, restricted or extended according to specific circumstances, so that specific operations and activities in the field of non-banking financial services can continue without interruption and disruption, with a view to performance, safety, but also consumer benefit and interest.

The Covid-19 pandemic has shown that there are no perfect recipes, neither for business nor for authorities, which has led to the need for adaptability to meet the continuing challenges. Thus, adaptability becomes one of the necessary and primary conditions to continue to exist and keep the "wheel turning", whether as part of the state apparatus (national public authorities, European authorities, etc.) or from the business perspective of regulated and supervised entities or consumers of financial products.

The prolongation of this crisis leads to increased uncertainty resulting from several economic, social and geopolitical risks and could generate scenarios such as a substantial surge in mitigation spending and a decline in asset prices.

To ensure financial stability, such developments require early identification of risks and vulnerabilities in the context of proactive and engaged supervisory activity.

Locally, the three financial sectors regulated and supervised by the Financial Supervisory Authority have shown good resilience since the beginning of the pandemic. However, from a financial stability perspective, the Authority will further intensify and develop tools so as to identify, assess, analyse and mitigate risks and vulnerabilities in the current context where the Covid-19 pandemic may bring structural changes to the global societies and economies of which financial markets are part:

- preparing regular trend and risk reports on financial markets and increasing the frequency of their publication: Non-Bank Financial Markets Stability Report, Quarterly Reports on Developments in Supervised Markets, Monthly and Weekly Trend and Risk Reports, possible other analyses of risks and vulnerabilities;
- identifying systemically relevant institutions and structures of the non-banking financial system;
- development of risk measurement and monitoring methods, quantitative risk management tools, warning systems for major risks in the financial sector and methodologies for testing under extreme market conditions (stress tests);
- conducting assessments, simulations, stress tests on the liquidity, solvency or level of prudential financial requirements of supervised entities;
- cooperation with other relevant local or international authorities so as to develop principles/procedures for the management of financial crises (including cross-border crises), as well as development of a common analytical framework so as to assess the systemic implications of potential crises in order to facilitate decision-making and reduce negative impacts;
- analyse the local and international macroeconomic context and the impact of macroeconomic factors on non-bank financial markets; develop risk scenarios for them.

Analysing, identifying and addressing the main risks and vulnerabilities in the supervised markets will be done from several perspectives:

The main issues related to the identification of these risks will be published, for transparency purposes, in the *Financial Supervisory Authority's Report on the stability of non-bank financial markets*, while systemic risks and risks from a macro-prudential perspective will be discussed in the National Committee for Macroprudential Supervision and the European Systemic Risk Board.

In addition, following the monitoring, assessment and addressing of the financial stability risks caused by the particular situation in relation to Covid-19:

- we will disseminate information in a timely manner and take appropriate measures that can mitigate these risks and ensure business continuity both at the level of the authority and at the level of market entities and infrastructure; we will disseminate timely information and order appropriate measures that can mitigate these risks and ensure business continuity both at the level of the Authority and at the level of market entities and infrastructure;
- we will prioritise those measures that support the development and business continuity of supervised entities, by identifying actions needed to build more resilient financial instruments and investment, insurance and private pension markets for the future

As far as **macroprudential policy** is concerned, it aims to prevent excessive build-up of risks from external factors and market failures, increase the resilience of the financial sector to shocks and limit contagion effects, and encourage a broad perspective on financial regulation to create the right incentives for market participants.

In order to conduct effective macroprudential policies at national level, national macroprudential authorities have been designated, based on the Recommendation of the European Systemic Risk Board (ESRB/2011/3), to define intermediate macroprudential policy objectives for their national financial system as a whole. The Financial Supervisory Authority participates in the work of the National Committee for Macroprudential Supervision, which has the fundamental objective of contributing to safeguarding financial stability, including by strengthening the resilience of the financial system to shocks and reducing the build-up of systemic risks, thereby ensuring a sustainable contribution of the financial system to economic growth.

Given the particularities of the supervised non-bank financial markets, at the end of 2017 the Financial Supervisory Authority assumed 7 interim objectives and 13 macroprudential tools, which are assessed each year based on regular analyses of the risks and vulnerabilities identified in the three supervised non-bank financial markets and the appropriateness of implementing the existing macroprudential tools.

The main intermediate objectives of the Authority as defined in the macroprudential policy are:

- Reducing and preventing excessive growth of lending and indebtedness - applies to capital market intermediaries;

- Reducing and preventing excessive maturity mismatches and market illiquidity - applies to the insurance sector;
- The concentration of direct and indirect exposures - applies to some financial entities operating in the capital market and private pensions system in Romania;
- Limiting the systemic impact of misaligned incentives in order to reduce moral hazard - applies to financial institutions operating in the capital market sector;
- Strengthening the resilience of financial infrastructures;
- Protecting the insurance system from the consequences of the insolvency of some insurers - applies to the insurance sector;
- Reducing the negative impact of operational risks arising from the use of information and communication technology - applies to the three sectors supervised.

The Financial Supervisory Authority will continue its regular review of macroprudential policy to address possible further risks and vulnerabilities in the context of Covid-19 at an early stage.

1.2. Digitalisation and technological innovation in the field of financial services

Digitalisation is a key resource for carrying out any activity globally, given that the evolution of technology currently exceeds the human possibilities of inclusion and processing.

Therefore, finalising the IT strategy and modernising IT systems in line with the latest developments and trends in the field is a priority for the Financial Supervisory Authority and an essential requirement, not only to improve supervisory, regulatory and licensing activities, but also to ensure

high standards of professionalism and to keep pace with market developments.

At the same time, the Authority aims to cut red tape by implementing Blockchain/DLT technology, but also by harmonising the reporting framework of supervised entities in line with the reporting requirements developed by ESMA, EIOPA and ECB at EU level, through cross-sectoral involvement with other national competent authorities in order to align reporting processes, data flows and coordination of deadlines, thereby increasing the complexity of data processing so as to identify potential risks and vulnerabilities to markets, financial stability and consumer protection of non-banking financial services.

In the strategic documents drawn up by the European supervisory authorities (ESMA and EIOPA), emphasis is placed on the importance of digitalisation and financial innovation, and in particular on the benefits they bring to day-to-day business, while also taking into account the risks they can bring.

Digitalisation and financial innovation are evolving at an accelerating pace, changing and influencing business models, financial products and services offered, distribution channels and, by implication, contributing to increased cyber risk exposures. For this reason, ***digitalisation***, both at the level of the authority, supervised entities and consumers, becomes essential for identifying risk mitigation measures as well as for ensuring global competitiveness.

At the level of financial institutions, an increasing number of entities are stepping up their efforts towards digital transformation and allocating considerable financial resources to this end, in order to be able to adapt quickly to new challenges and to protect their business as well as their employees and customers.

In the period 2021-2023, the Financial Supervisory Authority will continue its efforts to identify and implement the best ways to process and analyse financial data from supervised markets, based on the latest technological developments (e.g. blockchain/DLT) and best practices in the field.

In our view, a modern information management information system will need to be able to incorporate, in a synergistic way:

- efficient collection of quantitative and qualitative indicators and their aggregation without human intervention into dynamic data structures;
- simulation of human expertise by using machine learning algorithms on large data sets;
- the contextualisation and diversification of the information collected by using mechanisms for extracting information from unstructured data sources such as the Internet.

At the same time, this system must benefit from a solid supporting infrastructure, its development being closely linked to the planned migration of the Financial Supervisory Authority's IT systems to a private cloud architecture. It is also important to train staff to understand and apply the new working model, which is why internal/external training is needed so that they can adopt all these changes naturally. These courses will focus on the main skills needed, namely:

- Digital skills;
- Connectivity and use of online platforms;
- Cyber security, data protection, online safety and IT ethics;
- Other topics related to digitalisation.

In this context, the digital organisation of the authority becomes extremely important, as do the digital skills of employees. It is time to make the most of the possibilities of interacting in the digital environment and, in addition, to identify new ways of action that will lead to the achievement of organisational goals. Technologies such as **AI**, **machine learning**, **RPA** or **blockchain** should be considered for all projects related to the digitalisation of processes.

Both internal analysis and the immediate reality show that there is a huge potential for digitalisation within the authority, and a large part of the processes can be digitalised and automated. Digitalising important processes, if done right, can reduce costs, shorten response times and improve the quality of work.

The first step in the digital transformation process is the same, regardless of the institution, and this lies in the cloud strategy. Such an implementation should aim at real-time monitoring of digitalised processes, which provides the opportunity to make decisions based on data, and not on managers' intuition.

Thus, it can be said that entities that restructured their business model and products in previous years, relying on digitalization, had a net benefit in the current year, compared to those that did not pay attention to technological innovation. The crisis has confirmed digitalisation-based models and solutions. Many customers will now experience the benefits of digitalised entities, which allow for digital opening of accounts or the transparency and 24/7 availability of an online customer service centre. Also, providers of participatory business financing services, and investment advice delivered through automated means (robo-advice), can take full advantage of the opportunities offered by the requirement to reduce physical contact.

The implementation of technologies such as machine learning, blockchain or augmented reality will have an exponential adoption in the area of entities authorised by the Financial Supervisory Authority (insurance, pensions, capital market), and if the Financial Supervisory Authority succeeds in implementing the proposed digitalisation projects, it will benefit from important competitive advantages and will be systemically integrated in the list of those who succeed.

As new technologies can play an important role in the development of the Capital Markets Union, helping to overcome barriers to integration, the focus is on them. New financial technologies (Fintech) create a range of new opportunities for regulated entities, financial market products and trading, leading to improved efficiency of financial activity, making it easier to bring investors closer to financial markets and increasing the supervisory capacity of regulators.

Digital transformation is understood by the European Commission as a fusion of advanced technologies integrating physical and digital systems and when combined with innovative business models and processes, leads to the creation of smart products, services and significant productivity improvements.

Thus, as already stated in the EU strategy on "Shaping Europe's Digital Future", innovative businesses need funding, which can only be provided by capital markets. In practice, digitalisation is also a source of financial instruments, from which both the capital market and the wider economy benefit.

From the perspective of consumers and investors in financial products and services, digitalisation can help reduce costs and increase transparency. At the same time, prudent implementation is needed in view of the risks that may arise, as well as solutions to prevent or mitigate them, in order to maintain their confidence and protection at an adequate level.

From the perspective of the supervisory authority, the use of technology becomes inevitable as it can provide us with innovative and effective supervisory solutions that will allow us to support a more efficient, flexible and responsive supervisory system.

In the coming period we will therefore pay more attention to the process of digitalisation and technological innovation in financial services, all the more so as in the situation of the pandemic and the need for physical distance, they have proven how important they are for the proper operation and stability of financial markets. In this context, and in line with the actions taken at the level of the European Commission, ESMA and EIOPA, the Financial Supervisory Authority has two strategic directions, namely:

- encourage digitalisation and the development and implementation of new technological solutions in financial markets;
- continue the process of internal digitalization and implementation of new innovative solutions.

In terms of encouraging digitalisation, development and implementation of new technological solutions in the financial markets, the Financial Supervision Authority will continue the development of the FinTech Hub, a project launched in 2019, which in 2020 proved its usefulness and became permanent at the Authority level.

The aim of the FinTech Hub is to create and manage a formal framework for a direct dialogue with companies interested in promoting fintech solutions and products with applicability to the markets under supervision, and to accumulate knowledge in the fintech field. In doing so, the aim is to further strengthen the authority's capacity to analyse and manage fintech innovations and to increase knowledge and experience of innovations, as well as to identify the opportunities and risks they pose, and to increase companies' understanding of regulatory and supervisory expectations.

Another step in this direction is to examine the opportunity of developing a sandbox within the Authority for non-bank financial markets. The sandbox is an organised framework in which companies are allowed to test innovative solutions, financial services or business models in a controlled environment, based on a specific test plan agreed and monitored by the competent authority. The launch of a sandbox may represent an opportunity for the authority to adapt to the future regulatory and supervisory framework in a way that allows it to encourage the sound development of the financial sector while ensuring adequate consumer protection.

The Financial Supervisory Authority also wants to set an example for financial market players and encourage the development and implementation of innovative technologies. To this end, at the end of 2020, the Authority launched a call for tenders to carry out a pilot project to test the applicability of blockchain technology within the Authority, with a functional prototype of a blockchain technology-based IT system to be implemented by the end of the first quarter of 2021 for a working process. Together with this functional prototype, the applicability of the use of blockchain technology within the Authority, the benefits of implementing the technology, as well as the identification of new work processes, which may be eligible for the implementation of such technology, will also be analysed.

In order to keep pace with technological developments, but also to implement the necessary legislative and supervisory measures, the Financial Supervisory Authority:

- is involved in a European-wide research project, supported by the European Commission, where various IT solutions based on innovative technologies such as Artificial Intelligence, distributed ledger technology, etc. are being researched and developed;
- closely monitors developments in financial innovation in the financial sector, through participation in working groups within the European Commission, ESMA, EIOPA or set up at the level of other European or international bodies, and analyses the benefits and risks for consumers that they may generate;
- supports European-level efforts to promote technological innovation in financial services by taking steps to implement Regulation (EU) 2020/1503 of the European Parliament and of the Council of 7 October 2020 on European Business Finance Providers and amending Regulation (EU) 2017/1129 and Directive (EU) 2019/1937, which is a first step at national level to regulate participative financing platforms and which will offer the possibility of developing a new type of innovative business in Romania in the field of financial services

1.3. Stimulating and developing the infrastructure of non-bank financial markets

Consistent with its principles of supporting and stimulating the development of the three regulated and supervised non-bank financial markets, the Financial Supervisory Authority aims to promote and collaborate with the Romanian Government, the Ministry of Public Finance and other public authorities so as to initiate, adopt or implement a package of measures aimed at:

Capital market

- Support the development of a **national capital market strategy and promote the recommendations and actions set out in the strategy with a view to their implementation**. The strategy will be based on the analysis of the current situation of the Romanian capital market and the identification of the main structural issues arising from the analysis of the regulatory framework (securities legislation, tax legislation, company legislation, etc.) and will suggest principles and a specific set of measures to be implemented by all stakeholders, including regulatory, institutional and tax reform initiatives, to be completed by the end of 2021

By implementing this strategy, the aim is to increase the participation of companies as well as domestic and international investors in the Romanian capital market, including public and private markets. An increased level of capital market activity in Romania will improve the ability of the financial system to provide companies with different sources of long-term financing, which can complement bank loans and own resources.

- Adopt a **strategy so as to promote the financing of state-owned companies through the capital market**. The strategy will include an analysis of state-owned companies that would meet the requirements for listing on the regulated market, the benefits and drawbacks for each company analysed and a list of priorities and a timetable for listing these companies.

Admission to trading is made after publication of an initial public tender prospectus, (primary/secondary) for the sale of shares or a prospectus, (technical listing), which is previously approved by the Financial Supervisory Authority and requires an analysis of the criteria imposed by the legislation in relation to the shares and the company as a whole. Having regard to the provisions of Law No. 173/2020[1] on some measures for the protection of

[1] Published in the Official Gazette of Romania and in force starting 16 August 2020.

national interests in economic activity, art.1[2], the secondary offer, with the state as an offeror, the deadline for completion is the second half of 2022. For the implementation of the other alternatives for admission to trading, the proposed deadline for implementation is a maximum of 9 months from the date on which the Romanian Government determines the companies considered for the listing process.

- **Increasing the attractiveness of the Romanian capital market for foreign investors and issuers** and financing the economy by:
  - ✓ Continuing to issue government securities dedicated to retail clients and trading them on the secondary market managed by the Bucharest Stock Exchange;
  - ✓ Covering the financing needs of state-owned companies through the capital market, i.e. by raising capital/selling stocks or issuing corporate bonds and trading them on the Bucharest Stock Exchange;
  - ✓ Selling minority stakes of the state through the Stock Exchange;
  - ✓ Granting tax incentives to Small and Medium-Sized Enterprises (SMEs), which are admitted to trading on the regulated market or in a multilateral trading system, in order to stimulate the development of a "SME growth market", as regulated by Law No. 126/2018 on markets in financial instruments, as subsequently amended.

- **Strengthening the legal framework on the organisation and functioning of compensation schemes** by completing the legislative process for the approval of the draft Law on the Investor Compensation Fund (PL-x no. 654/2018), a draft adopted by the Romanian Senate in 2018; the main purpose of the draft law is to apply in a unified manner the requirements on the governance of the compensation - guarantee schemes serving the financial markets in Romania, by regulating the management of the compensation scheme for investors on the capital market by a legal person under public law, similar to the organization and operation of the guarantee schemes for the insurance market (FGA - Policyholder Guarantee Fund), the private pension market (FGDSPP - Private Pension System Rights Guarantee Fund).

Following the approval by the Romanian Parliament of the draft Law on the Investor Compensation Fund, the existing secondary legislation at the level of the Financial Supervisory Authority will be revised in order to strengthen the secondary legal framework on the organisation and operation of the Investor Compensation Fund. Given that the estimated deadline for the revision of secondary legislation depends on the deadline for the approval of the draft law, we propose as an estimated deadline the second half of 2023.

[2] *"It is forbidden, for a period of 2 years, the sale of shares held by the State in national companies and corporations, credit institutions, as well as in any other company in which the State is a shareholder, regardless of the share capital held"*

Insurance Market

Stimulate the diversification of the insurance market and decrease the concentration in the motor insurance segment:

- Support the development of several market segments: agricultural insurance, guarantee insurance (there is a memorandum on the establishment of a state aid scheme called "*State aid scheme to support access of companies to commercial credit for the recovery of Romania's economy*", adopted by the Government on 31 July 2020);
- Increase the coverage of compulsory home insurance by:
  - ✓ informing the staff of the Administrative Territorial Units about the PAD;
  - ✓ analysing the implementation of measures to apply sanctions to the non-insured persons;
  - ✓ additional education measures for citizens to raise awareness of the need for insurance in general; additional education measures for citizens to raise awareness of the need for insurance in general;
  - ✓ multiple possibilities for conditioning some PAD insurance services (notaries for sale-purchase, rental, NAFA, for issuing a tax certificate, etc.).
- Developing the health insurance market by:
  - ✓ supporting complementarity between the public and private sectors;
  - ✓ possible application of tax deductibility;
  - ✓ possible extension of private insurance to public health facilities.
- Possible legislative measures that the Romanian State could take to boost the insurance market:
  - ▪ amendment of Law no. 260/2008 on compulsory insurance of dwellings against disasters with changes aimed at increasing penetration;
  - ▪ amendments to the Law on Social Health Insurance by including private health insurance:
    - ✓ development of the co-payment system;
    - ✓ introduction of additional tax deductibles for private health insurance;
  - ▪ amendment of Law no. 95/2006 - on health care reform - civil liability of medical staff;
  - ▪ increase support to farmers/agricultural sector to take out crop insurance policies

Private Pension Market

Promoting legislative solutions for the safe development of the pension fund market, including through the digitalisation of the private pension system (draft laws for the adoption of emergency ordinances amending Law no. 411/2004 on privately managed pension funds at various stages in Parliament, draft amendments to Law no. 411/2004 on privately managed pension funds and Law no. 204/2006 on voluntary pension funds, proposals to supplement Order no. 64/2003 approving the framework model of the individual employment contract)

- Contributions to the completion of the legislative framework concerning the tax regime applicable to occupational pension funds, their administrators, fund participants and employers (proposals to amend and supplement *Law No. 227/2015 on the Tax Code and Government Decision no. 1/2016 amending and supplementing the Methodological Norms for the application of Law no. 227/2015 on the Tax Code);*
- *S*upport the adoption of the legal framework necessary for the introduction **of pan-European pension products** *as a new savings vehicle for European investment, sustainable financing and capital market development (draft law on measures implementing Regulation (EU) 2019/1238 of the European Parliament and of the Council of 20 June 2019 on a pan-European personal pension product (PEPP) and Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 establishing a framework to facilitate sustainable investments and amending Regulation (EU) 2019/2088);*
- Promoting the legal framework for the organisation and operation of the private pension payment system *(draft law on private pension payments).*

Complementary to this package of measures, the Financial Supervisory Authority continues to support, develop and implement ambitious projects aimed at ensuring the development of the Romanian capital market architecture and contributing to the development of the European single market:

- ➢ **The action plan to support the establishment of a national central counterparty (CCP)** initiated in 2018, which aims to strengthen investor confidence, increase liquidity and maintain the status of an emerging market, with the end of 2022 as deadline for implementation;
- ➢ **The Capital Markets Union (CMU) Action Plan** revised in September 2020, which aims to achieve three main objectives:
  - ensuring an economic recovery that is green, digital, inclusive and resilient by making the rules for access to finance by European companies more flexible;
  - making the European Union a safer place for people to save and invest for the long term;
  - integrating national capital markets into a single EU-wide capital market.

In order to achieve these goals, the Financial Supervisory Authority will ensure the implementation measures according to its competences, in correlation with the acts and projects adopted at the level of European authorities aiming at actions relevant to the integration of supervised financial markets, such as: creating a single point of access to company information for investors; supporting insurance companies and banks to invest more in European business; strengthening investment protection to support more cross-border investment within the EU framework; facilitating the monitoring of the adequacy of Europe's private pension system; harmonising insolvency rules; developing supervisory convergence and uniform application of legislation for EU financial markets.

STRATEGIC OBJECTIVE 2 - UPDATING THE LEGISLATIVE FRAMEWORK

An important part of the regulatory activity is represented by the legislative amendments and supplementations, both in terms of primary and secondary legislation, a constant and important activity to maintain a sound and coherent legislative framework.

According to the Capital Markets Union Action Plan, the legislative measures at European level projected for the next period which concern acts for which the Financial Supervisory Authority is the competent authority concern the revision of directives such as: MiFID[3], OPCVM[4], Solvency II[5] or Regulations on MiFIR[6], PEPP[7], IMM[8] etc. Accordingly, the Financial Supervisory Authority will continue to be involved in supporting and implementing these measures, mainly by appointing experts to ensure participation in the activities of working groups organised at EU Council level, as well as after publication of these texts, with a view to their transposition or implementation into national legislation.

Harmonisation of primary and secondary legislation with European legislation and technical standards is a wide-ranging and ongoing process and involves reviewing, amending and supplementing the legislative framework in order to strengthen, efficiently operate and integrate national financial markets into the European single market.

A relevant component within this objective is related to simplifying the regulatory framework and ensuring cross-sectoral convergence by aiming, where possible, at a single set of rules applicable to all regulated and supervised entities.

[3] Directive 2014/65/EU on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU

[4] Directive 2009/65/EC on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS)

[5] Directive 2009/138/EC on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II)

[6] Regulation 600/2014 on markets in financial instruments and amending Regulation 648/2012

[7] Regulation 2019/1238 on a pan-European personal pension product (PEPP)

[8] Regulation 2019/2115 amending Directive 2014/65/EU and Regulations 596/2014 and 2017/1129 as regards the promotion of the use of growth markets for SMEs

2.1. Updating and harmonising the sectoral legislative framework - capital market, insurance-reinsurance market and private pension market

Proper understanding and implementation of the new regulatory framework is also a priority for the proper functioning of the markets. We will pay greater attention to this in the regulatory processes:

- Informing the public in a timely manner about planned changes in regulatory policy;
- Ensuring an effective dialogue with competent authorities, institutions, professional organisations and other stakeholders when conducting public consultations on suggestions to amend the regulatory framework;
- Conducting awareness campaigns with the different groups of regulated entities to avoid errors or omissions in the application of the relevant legislation;
- Monitoring market developments and the evolution of new technologies and business models so as to assess and address regulatory issues arising from the use of new technologies and business models;
- Preparation and implementation of practices and recommendations for uniform application of legislation.

Updating the **capital market** legislation to adapt to the ever-changing European legislation will be a priority:

- adoption of measures implementing the Regulation (EU) on European providers of business equity finance and amending Regulation (EU) 2017/1129 and Directive (EU) 2019/1937;
- review and update national primary and secondary legislation applicable to collective investment undertakings, issuers, investment companies, regulated markets and central depositories in order to bring them in line with European legislation as well as Community best practices in terms of supervision of these entities in line with recommendations and guidelines issued by European bodies, but also following substantiated requests from market participants, a continuous review process with the observance of the deadlines for the transposition of European legislation at national level;
- supporting efforts to improve regulation and provide tax relief to attract and retain institutional investors in the market.

The legislative process for the **insurance-reinsurance market** over the next few years is extensive and complex, including both legislative amendments and supplementations and the drafting of new normative acts. Thus, we are continuing to improve the regulatory framework in order to ensure firm and solid premises for the development of the insurance market, the main legislative amendments and supplementations related to the insurance-reinsurance sector concerning:

- participation in the development and updating of the regulatory framework on compulsory motor third party liability insurance for accidents with vehicles and tramways in order to bring it into line with the provisions of Directive 2009/138/EC and Directive 2009/103/EC;

- participating in the development and updating of the regulatory framework for the authorisation and supervision of insurance and reinsurance activity;
- participation in the development and updating of the regulatory framework for financial recovery, bankruptcy, winding-up and voluntary liquidation in insurance activity;
- participation in the development and updating of the regulatory framework on recovery and resolution of insurers;
- participation in the development and updating of the regulatory framework for compulsory insurance of dwellings against earthquakes, landslides and floods;
- developing and adopting secondary legislation in order to update or correlate it with primary legislation or with standards and policies issued at the level of the European authority EIOPA.

For the update of the regulatory framework applicable to the **private pension market** for the period 2021 - 2023, the information and conclusions drawn from the following aspects will be analysed and processed:

- the state of development of the private pension funds market;
- the growth in the volume of assets;
- European sectoral and cross-sectoral regulatory developments and the identification of participants' needs and expectations are the elements underpinning the development of the regulatory framework for private pensions;
- dialogue with stakeholders, best practices, guidance, studies and research by bodies with expertise in the field (e.g. G20, IMF, World Bank, EBRD, IOPS, EIOPA) as these are of particular importance in the regulatory process;
- contributions to the drafting and adoption of the Law on the payment of private pensions.

The process of drafting secondary legislation covers the issuing or revision of the following categories of normative acts:

- Rules implementing the provisions of Law no. 411/2004 on privately managed pension funds and Law no. 204/2006 on voluntary pension funds;
- Rules implementing the provisions of Law no. 1/2020 on occupational pensions;
- Rules implementing the provisions of Regulation COM(2017) 343 on the Pan-European Personal Pension Product (PEPP).

The update of the regulatory framework presented is of a permanent nature, for the whole period from 2021 to 2023.

2.2. Convergence in regulatory activity. Integrated regulatory acts

The integrated regulatory process aims at harmonising and consolidating into single regulatory acts the provisions applicable to certain activities, operations or processes common to entities in the three supervised markets. An integrated regulatory framework contributes to consistent and homogeneous practices and approaches across the three sectors, leading to consistency and credibility, both in the regulatory process as a whole and in the application and implementation of the provisions contained in the integrated regulatory acts.

Developing and updating the regulatory framework necessary to ensure convergence and consistent practices, both across the three financial supervision sectors within the Authority and across regulated entities, remains a strategic priority and will involve broad cross-sectoral collaboration.

As part of our approach to integrated regulation, we will focus more closely on the end goal, so as to be as clear as possible in defining regulatory requirements at a time when market dynamics, innovation, social and legislative change are transforming the financial landscape at a particularly rapid pace.

At the same time, fully in line with the actions taken by the Joint Committee of the three European Supervisory Authorities (ESMA, EIOPA and EBA), the integrated regulatory work for the coming years aims at developing and updating secondary legislation by ensuring convergence and uniform practices, both at the level of the three sectors of financial supervision and at the level of regulated entities.

Looking ahead to the next period, we undertake to harmonise secondary legislation to implement European and national legislation on sustainability disclosures in the financial investment sector, the protection of whistleblowers, as well as the review of regulations on the assessment of the suitability of members of the management structure and persons holding key positions in entities regulated by the Financial Supervisory Authority, and regulations on the establishment of measures to prevent and combat money laundering and terrorist financing through the financial sectors supervised by the Financial Supervisory Authority.

STRATEGIC OBJECTIVE 3 - RISK ASSESSMENT, STRENGTHENING PRUDENTIAL SUPERVISORY PRACTICES AND CONDUCT OVERSIGHT

The Financial Supervisory Authority monitors, supervises and controls the activity of regulated entities, both by verifying compliance with requirements, investment limits and prudential indicators, which focus on the financial "health" of the entity, and by monitoring compliance with conduct of business rules, both areas being addressed primarily from an identified risk perspective, but also from a compliance perspective.

For the supervision of conduct of business rules at the level of entities operating in the non-bank financial markets, processes, procedures and tools have been developed and implemented with the support of the European authorities to verify that entities supervised by the Financial Supervisory Authority conduct their business in a fair, transparent and customer-oriented manner and that customers are able to make informed decisions and select products that best suit their needs.

3.1. Strengthening risk-based supervisory processes across the three sectors of financial supervision

The multi-year objectives we have in mind for strengthening supervisory processes are to develop techniques for assessing and categorising entities into risk categories and to use tools in line with best practices.

2021 - 2023 will be a period of development of the supervisory function, from a risk assessment perspective, but also in line with the new reality of financial markets and human interaction reconfigured by the Covid-19 pandemic.

Specific measures applied globally, such as teleworking, physical distancing, digitalisation and automation of processes are elements taken into account in the process of strengthening the Authority's supervisory and control practices by adapting internal working mechanisms, processes and procedures accordingly.

The Financial Supervisory Authority will prioritise the implementation of robust processes for identifying and assessing entity-level risks and understanding the impact that materialising risks may have on the market as a whole. On the other hand, a constant and effective dialogue with entities in the supervised markets will be necessary to understand and raise awareness of risks and the concept of risk-based supervision. The new supervisory approach will result in an X-ray of the markets to map relevant risks, identify vulnerabilities and take preventive or mitigating measures to limit them.

The planning of supervisory activity and the allocation of resources (people/teams assigned, frequency of supervisory actions, focus on specific supervisory issues, overall market impact), will be carried out in proportion to the degree of risk determined for each supervised entity.

The priority objectives set for supervisory and control activity, from a prudential and conduct of business perspective and with a view to the orderly functioning of markets **in the Financial Instruments and Investments Sector**, are summarised as follows:

- ➢ strengthening the application of the principles and techniques of supervision and control related to the RBS (risk based supervision) method, with an estimated implementation date of 2023;

- contribution to increasing supervisory convergence at European level, by participating in joint supervisory actions organised and coordinated by ESMA, with an estimated implementation deadline at the end of 2021, for:
  - conducting exercises to identify risks and issues associated with costs and performance in consideration that investors should only pay fair, legitimate and proportionate costs and fees, which must be disclosed in a transparent and understandable way;
  - improving data quality for the different reporting categories - market abuse, trading and post-trading; eliminating problems arising from late, one-sided, duplicate reporting, errors in IT reporting systems, divergent application of validations required by the European authority due to insufficient or unclear data standardisation. For this objective, given its nature, the deadline is quarterly[9].
- improve the supervisory review process by stepping up work on the analysis of risk management processes within supervised entities, with a particular focus on models, scenarios and methodologies for stress testing of collective investment undertakings;
- monitoring compliance with conduct of business rules by verifying how supervised entities implement the provisions of new national regulations and directly applicable European regulations, including aspects of product intervention.

The strategic priorities in the area of supervision of activities in the **insurance-reinsurance sector** remain those relating to:

- strengthening and developing mechanisms for early identification of emerging risks at individual and sector level and, by implication, focusing the supervisory process on higher risk areas;
- the supervision and control of insurance and reinsurance companies according to the risk profile assumed, with the principle of proportionality being taken into account at all times;
- improving the supervisory system by developing supervisory tools based on risk assessment of insurance distribution activity and monitoring intermediaries according to risk profile;
- the development of an adequate and comprehensive conduct supervision framework, allowing for the early identification of factors generating conduct risks at the level of the Romanian insurance market, as well as at the level of each entity operating in this market, throughout the life cycle of the insurance product.

[9] SSEMT receives data files on DVC completeness daily, DVCAP calculations monthly, results for ESMA tests on FITRS, FIRDS, DVCAP monthly and quarterly, we respond to market queries (TREM, FIRDS) at least monthly, we have correspondence on EMIR, regarding errors reported by ESMA etc.

Additional emphasis in the surveillance process will be placed on issues and risks highlighted as a result of the Covid-19 crisis. In the coming period we will therefore focus our attention on the following actions:

- identifying, monitoring and addressing key risks contributing to consumer detriment by assessing costs and potential difficulties arising from the economic impact of the crisis, such as those related to illiquidity, complex pricing structure for some unit-linked products;
- monitoring and addressing risks related to product design and product reviews - in the light of product oversight and governance (POG) - and the impact of the COVID-19 crisis - assessing product issues, treatment and potential consumer harm;
- assessment of the sustainability of business models, solvency and profitability projections in stress tests, in view of the project on the Romanian insurance market assets and liabilities valuation exercise.

As far as conduct of business supervision is concerned, it generally covers three main areas: supervision of insurance companies and intermediaries, market supervision and supervision of insurance products.

In the context of achieving the strategic objectives of the Financial Supervisory Authority, the creation of an effective framework for the supervision of the conduct of entities operating in the insurance market is particularly important, both from the perspective of protecting customers of insurance products and from the perspective of contributing to the stability of the financial sector, as conduct risks affect customers as well as insurers, insurance intermediaries and the insurance sector as a whole.

In the coming period, increased importance will be given to the development of supervision of the conduct of entities operating in the insurance market and this objective is also included in the strategy of the European Insurance and Occupational Pensions Authority (EIOPA), of which the Financial Supervisory Authority is a member, which has adopted a strategy for the development of a supervisory framework geared towards prevention and early identification of risks.

Conduct supervision based on the same principles, with a preventive, risk-oriented approach and the application of modern tools, implemented at European level, are also priorities for the Authority.

In this regard, in order to design a solid and comprehensive supervisory framework, which would include, in addition to the prudential component, the conduct component, the project *"Technical assistance on strengthening the function of the Financial Supervisory*

Authority in supervising the conduct of business in the Romanian insurance market" was completed in 2020, a project carried out jointly with the European Commission and EIOPA.

The implementation phase of the project, which will be managed by the Financial Supervisory Authority with the support of EIOPA experts, aims to develop a set of procedures and guidelines, based on which supervision and control activities will be carried out in the area of conduct on entities operating in the insurance market.

With regard to the supervisory activity in the **private pension sector** for the period 2021-2023, the permanent objectives of protecting the interests of participants and beneficiaries, increasing the quality of supervision and the level of transparency of available information are maintained as follows:

- protecting the interests of participants and beneficiaries by ensuring the efficient functioning of the private pension system and ensuring their access to appropriate information;
- maintaining low risk in the private pension fund market and protecting the stability of the private pension system;
- implementing an adequate supervisory system for occupational pension funds;
- improving the quality of on-site and off-site supervision activities;
- ensuring an adequate level of transparency of information.

Following the completion of the legal framework for the private pension system, the following objectives are added:

- updating the reporting information system and adapting the on-site and off-site supervision activities following the implementation of Law no. 1/2020 on occupational pensions;

- updating the reporting information system and adapting on-site and off-site supervision activities following the implementation of the European legislation on the PEPP (Pan-European Personal Pension Product).

3.2. Promoting convergence of supervisory practices. Integrated supervision

Strengthening an integrated supervisory framework for markets regulated by the Financial Supervisory Authority, developing an integrated supervisory framework based on risk and vulnerability analysis and harmonising sectoral supervisory, oversight, authorisation/approval mechanisms is a new goal for the Financial Supervisory Authority:

- ensuring efficient and effective application of supervisory, control and early intervention mechanisms, improving these mechanisms at the level of the Financial Supervisory Authority, including from the perspective of macro-prudential risks and supervisory best practices;

➢ improve sectoral and integrated supervisory and control policies, arrangements and methodologies, including conduct and transparency, as well as those relating to sectoral licensing/approval activities, including in terms of impact on prudential and macro-prudential risks, reputational risk, enforcement of conduct of business rules and transparency.

By achieving these objectives we will ensure:

- convergence of supervisory practices, transposition of best practices in the application of regulations, methodologies and/or working procedures related to supervision, control and authorisation/approval activities across sectors;
- identifying, monitoring and assessing trends and risks in the non-bank financial markets with a view to integrated supervision, focusing on the most significant specific risks.

STRATEGIC OBJECTIVE 4 - BUILDING CONFIDENCE IN NON-BANK FINANCIAL PRODUCT MARKETS

According to an analysis carried out at the European Securities and Markets Authority ESMA), the correct diagnosis for the EU financial system shows that Member States' economies have been heavily reliant on banking systems for many decades. In recent years, bank deposits have delivered returns close to zero, while equity funds have returned 9% net. However, only a limited number of investors have taken advantage of this, with research showing that retail investment products in the EU are characterised by high costs that have negative effects on long-term returns.

Based on this conclusion, the project for the development of the Capital Markets Union (CMU) proposes a series of measures aimed at investor protection, transparency and confidence, financial education and pension reform.

4.1. Financial Education

The approach to financial education from a consumer protection perspective addresses different objectives related to the formation of competences and skills, as well as the formation of behaviours of current and future consumers, and is important for long-term financial development and stability.

In this respect, some measures already included in the *Action Plan for the Capital Markets Union*, aim at improving financial education through:

- developing a European financial skills framework;

- providing incentives for Member States to promote financial education and responsible investment.

Financial education focuses on key objectives that can be implemented along different strategic lines of action, based both on the need to increase consumer protection and the need to improve financial capability and financial inclusion.

The Financial Supervisory Authority therefore aims to build a learning environment for many types of consumers, from current to potential. To this end, the following principles will be taken into account when designing financial education programs and actions:

- financial education is a common national interest of public authorities, organisations, private entities, the population;
- financial education must be available and actively promoted throughout life;
- financial education programs should be targeted specifically to the needs of individuals and be available in a timely and easily accessible manner;
- financial education programs should include general tools that draw attention to the need to improve knowledge of financial issues and risks.

Based on these principles, in order to increase the level of financial education of the population, we will continue, as we have done so far, to organise education programs that will cover all three non-bank financial markets and will be aimed at all levels of education and all age groups:

- Financial education programs and actions to ensure that children and young people have access to the educational sources and information needed to become a protected consumer;
- Financial education programs and actions for adults contributing to increased financial inclusion and economic well-being.

Last but not least, we will organise awareness-raising campaigns, events and activities to reach as many people as possible, with impact, so that the multiplier role of the financial education process happens naturally and organically, to the benefit of consumers of non-bank financial products.

For all these actions that we are intending to do, the Financial Supervisory Authority will be supported by the Institute of Financial Studies, of which it is a founding member, with the ultimate aim of contributing, together with other institutions and organisations, to raise the level of financial awareness and education of the population. Thus, the Institute for Financial Studies will support the authority in its efforts to improve the professional skills of entities operating in the non-banking financial market, as well as to improve the level of knowledge and correct implementation of the latest legislative changes.

In order to achieve the common goal, the two institutions will work closely together and cooperate closely to:

- ✓ **Intensify financial education efforts** at the national level, through **joint projects to attract and engage young people in the non-bank financial sector** and make entities in the markets supervised by the Financial Supervisory Authority an "employer of choice" for the benefit of customers and end beneficiaries of financial services.
- ✓ **Increasing financial education** through the publication of materials, the inclusion of financial modules dedicated to financially related professions and outreach to individuals belonging to professional bodies whose activities have an impact on other members of society.
- ✓ **Creating a bridge of interaction between academia and the non-bank financial market area**, including by sharing the practical expertise of financial market professionals in economics-related faculty courses through the development of dedicated programs
- ✓ **Organising events** in order to promote the exchange of best practices in the financial sector.

For the programs and actions envisaged, the Financial Supervisory Authority is inspired by international experience in the field, adapted to the national reality, all of which fit into specific patterns of financial education, addressed by various authorities and organizations. The training of an active and responsible consumer, who knows financial concepts, is the objective of the Financial Supervision Authority and, for the next period, it is complemented by the awareness of the role and attributions of the Authority in the national financial system and the mechanisms of consumer protection.

4.2. Consumer protection

As stated in the *Consumer Protection Policy*, we aim to strengthen the integrated organisational framework necessary for the development of the Financial Supervisory Authority's programmes in the field of consumer protection and financial education, through preventive actions to monitor and warn of possible violations of consumer rights and interests and through reactive actions following supervision, control and complaint handling operations.

In this context, ensuring the protection of consumers of non-bank financial services, together with maintaining the stability of the three supervised markets, shapes our entire strategy, around which all the tasks and powers conferred by the legal framework are circumscribed.

The protection of consumers and investors in non-bank financial products remains essential and will continue to be at the heart of our activities. To this end, we will continue to monitor and assess possible negative impacts for consumers and will order prudent measures and actions for mitigation.

In order to meet the needs of consumers, the Financial Supervisory Authority will ensure that:

- ✓ the information about the financial products and services offered is accurate, clear and not misleading;
- ✓ the existing consumer protection rules will be updated in line with changes agreed at European level;
- ✓ damaging investors and consumers of non-banking financial products will be firmly sanctioned according to the law;
- ✓ alerts will be issued in situations where deviations from the rules of conduct are detected or major risks for potential consumers are revealed.

A distinct role in the coming period will be assigned to the examination of 2020 financial reports submitted by companies listed under the law.

Given the risks and possible consequences of the pandemic, we will carefully monitor compliance with transparency requirements, giving priority consideration to accounting standards relating to '*financial statement disclosures'* with a focus on current concerns, significant judgements, estimation of uncertainties and

and disclosure of COVID-19 related items within these statements; *'asset impairment'*, where goodwill, tangible and intangible assets may be affected by the deteriorating economic picture for various sectors. In addition, in order to increase the effectiveness of consumer protection, the Financial Supervisory Authority aims to participate in regular meetings with representatives of

market and consumer associations. It will continue regular dialogue with the professional associations of regulated entities and consumers in order to better understand the specific problems they face and to actively participate in their resolution. The Authority aims to maintain and cultivate this dialogue over the long term, in order to be constantly informed of any specific situations that may arise in the market and to strengthen its role as an active partner in improving the functioning of non-bank financial markets.

STRATEGIC OBJECTIVE 5 - CONTRIBUTION OF THE FINANCIAL SUPERVISORY AUTHORITY TO BUILDING THE EUROPEAN INSTITUTION

5.1. Capital Markets Union (CMU)

The Capital Markets Union (CMU), the most important reform programme for capital markets, continues to be of particular interest to the European Union and is now one of the main long-term objectives, particularly with a view to resuming economic growth and the transition to a green and digital economy.

The Financial Supervisory Authority aims to continue its involvement in the implementation of the measures proposed in the CMU Action Plan developed by the European Commission in 2015. The Authority will focus on making the necessary changes to enable proper implementation of the legislative measures adopted at European level during 2019, such as: *Review of the prudential framework for investment firms, Cross-border distribution of investment funds, Participatory Finance, Implementation of the Pan-European Personal Pension Product (PEPP) Regulation.*

Efforts to create a genuine single market for capital to ensure finance recovery and long-term growth continued at EU level with the publication in **September 2020 of a new** CMU Action **Plan**, including 16 legislative and non-legislative actions. The actions are mainly aimed at promoting SME finance through the capital market and increasing the retail investor base. The bulk of the legislative actions relate to the non-banking financial regulatory and supervisory areas, mainly amending legislation such as MiFID[10], OPCVM[11], Solvency II[12], MiFIR[13], PEPP[14], IMM[15].

The measures announced in this Action Plan will further transform the EU financial system, requiring support through the involvement of technical experts from the relevant national authorities. In this context, the Financial Supervisory Authority will support the implementation of these measures by participating in the negotiation at EU Council level of the texts of the proposed legislation and subsequently publishing these texts for transposition or implementation into national law.

[10] Directive 2014/65/EU on markets in financial instruments
[11] Directive 2014/91 amending Directive 2009/65/EC on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities
[12] Directive 2009/138 on the taking-up and pursuit of the business of insurance and reinsurance
[13] Regulation 600/2014 on markets in financial instruments
[14] Regulation 1238/2009 on a pan-European personal pension product
[15] Regulation (EU) 2019/2115 on promoting the use of growth markets for SMEs

5.2. Involvement in the work of the European Securities and Markets Authority (ESMA)

The Financial Supervisory Authority will continue to contribute to ESMA's activities in line with the strategic orientation for 2020-2022, with a strong focus on strengthening supervisory convergence, ensuring a higher degree of investor protection and will entrust direct supervision of certain benchmarks and data service providers to ESMA.

Also, an important priority remains the promotion and implementation of the new initiatives resulting from the Capital Markets Union (CMU) Action Plan developed in September 2020, the Sustainable Finance Strategy and the new Digital Finance Strategy, with the Financial Supervisory Authority to be involved in the development and adoption of ESMA documents to assist the European Commission.

ESMA's priority on supervisory convergence will be to build a common supervisory culture that is risk-based and outcome-oriented. Given the importance of sharing expertise between national authorities, the Financial Supervisory Authority will cooperate closely with both other authorities and ESMA on best practices from ongoing national supervisory cases and will contribute to the development of a capital market supervisory handbook. Also, in the context of strengthening supervisory convergence, peer reviews will become more outcome-focused and the peer review methodology will include flexible assessment alternatives such as rapid assessments, thematic approaches.

The risk analysis work will focus on integrating new perspectives generated by financial innovation and environmental, social and governance (ESG) factors. ESMA will also continue to monitor the impact of the COVID-19 pandemic on the markets as well as the UK's withdrawal from the EU after the end of the UK transition period. These activities will be supported by the ESMA, both through the provision of data and staff expertise, given the interest they represent for our Authority.

Another component will be involvement in the drafting of Level II legislation for acts already adopted as part of the Capital Markets Union (CMU) initiative and will contribute to planned reviews of major acts adopted as part of the post-financial crisis agenda.

5.3. Involvement in the work of the European Insurance and Occupational Pensions Authority (EIOPA)

The Financial Supervisory Authority will contribute in 2021-2023 to EIOPA's work on managing the impact of the Covid-19 crisis and the recovery of the European economy.

The impact of the pandemic on European jurisdictions will be asymmetric, with a potential effect on the regulatory and supervisory framework for business conduct, so it is essential that the Authority engages in strengthening a common supervisory culture, including effective monitoring and risk management, to benefit from the experience of other countries.

As the Covid-19 pandemic continues to take its toll on financial markets, activities to support business continuity, economic recovery and increasing the resilience of the insurance and pension sectors become increasingly important. Consumer protection will continue to be a key issue in the coming years and the Financial Supervisory Authority will continue to work with EIOPA and other national supervisory authorities to monitor and assess possible adverse effects on consumers and establish prudent remedial actions.

Activities to support the development of the Capital Markets Union will continue through the development of initiatives aimed at greater product transparency for the long-term benefit of consumers and depositors. An important element for the development of the Capital Markets Union will be the effective introduction of the EEA-wide Pan-European Personal Pension Product (PEPP) - a new product to support European citizens who intend to save for the long term.

Considering that the Covid pandemic will have a significant impact on current trends, EIOPA will keep a particular focus on activities related to digitalisation and financial innovation, phenomena whose accelerating evolution influences business models, products and services offered, distribution channels and cyber risk exposures and which are also on the Financial Supervisory Authority's agenda.

In line with the European Union's sustainability agenda, EIOPA will focus its efforts to support the insurance and pension sector in implementing the new requirements, without prejudice to governance principles, regulatory obligations and supervisory methods.

The Authority will be involved in the implementation of the Union-wide priorities of relevance established by ESMA and EIOPA in accordance with Article 29a[16] of *Regulation 1095/2010 establishing a European Supervisory Authority (European Securities and Markets Authority)*

[16] Article 29a) - “Following a discussion in the Board of Supervisors and taking into account contributions received from competent authorities, existing work by the Union Institutions, and analysis, warnings and recommendations published by the ESRB, the Authority shall, at least every three years, by 31 March, identify up to two priorities of Union-wide relevance which shall reflect future developments and trends. Competent authorities shall take those priorities into account when drawing up their work programmes and shall notify the Authority accordingly. The Authority shall discuss the relevant activities by the competent authorities in the following year and draw conclusions. The Authority shall discuss possible follow-up which may include guidelines, recommendations to competent authorities, and peer reviews, in the respective area.”

and Regulation 1094/2010 establishing a *European Supervisory Authority (European Insurance and Occupational Pensions Authority).*

This Article states that National Competent Authorities (NCAs) will take into account the priorities set by ESMA and EIOPA in drawing up their annual work plans, and that ESMA and EIOPA will monitor the progress of NCAs following the adoption of the priorities in their work programs.

5.4. Participation in the European Systemic Risk Board (ESRB)

As regards the assessment of external risks to financial stability in the Romanian non-bank financial system, we focus on the following activities:

- participation in General Board and technical committee meetings;;
- reporting on financial stability at European level and assessing the impact of the materialisation of risks at the level of markets and supervised entities;
- participating in the definition of the macro-prudential framework on systemic risk in the insurance-reinsurance sector and capital markets.

The specific objectives are: to improve trend, risk and vulnerability assessment reports, include new indicators so as to assess and monitor systemic, market, liquidity, credit, contagion risks, etc.., as well as indicators on macroeconomic developments at international level, based on the technical recommendations of the ESRB working groups; use of the ESRB colour map based on the interim macro-prudential objectives with the aim of defining an adequate framework for monitoring financial stability at European level and identifying potential vulnerabilities of financial markets and non-bank financial institutions in Romania in the event of the materialization of external risks.

SECTION 2 – ACTIVITY PROGRAM- 2021

The activities planned for 2021 will respond to the challenges faced by supervised financial markets, ensure the implementation of measures initiated at European Commission level to finalise the Action Plan in support of the Capital Markets Union, promote sustainable financing and manage the opportunities and risks posed by digitalisation.

The severity, complexity and scale of the Covid-19 pandemic has created and continues to create serious threats to human health and at the same time national and international economic disruption. Thus, while the pandemic is still in full swing, high levels of uncertainty about the extent of economic disruption remain and will increase the risks, without knowing the precise long-term impact on economies and societies as a whole.

In this context, the program of activities for 2021 is adjusted in line with the outcome of the regular risk assessment, outcome and performance monitoring at the level of the three markets, with the response and proposed measures to be planned in close consultation with stakeholders to ensure a prudent and inclusive approach.

In managing the year's activities, our priority will be to mitigate the direct and indirect effects of the Covid-19 crisis on financial stability, supervised markets and consumers, and adopt internal measures leading to consistency and speed in decision-making.

Also, depending on the evolution of the risks, in case of identification of strong upward trends, we will collaborate with other authorities at national and European level to identify the best options or to order temporary and flexible measures that can target:

- suspension, reduction or extension of some deadlines for the implementation of some operational requirements in order to focus efforts to respond to critical situations generated by the Covid-19 situation;
- returning to normal, business-as-usual conditions, requirements and operations in a consistent manner to maintain long-term stability;
- meeting the needs of consumers of financial products by making available all the information necessary for decision-making and the possibility of communicating this through alternative communication channels (IT applications, websites, electronic mail).

In setting priorities and main areas of focus for 2021, based on the mission to enhance the protection of investors and consumers of non-bank financial products and to promote stable and orderly markets, in a context where the pace of development of technology, consumer needs and therefore products is rapid, the Financial Supervisory Authority also seeks to strengthen specific functions.

The elements of novelty will be integrated into day-to-day processes, while developing a proactive attitude focused on early identification of risks and at the same time cultivating dialogue with representatives of regulated entities in the three supervised markets and consumers.

Thus, the Activity Program of the Financial Supervisory Authority for 2021 is subsumed by the multiannual strategy for the period 2021 - 2023 and aims at the following specific objectives and activities:

OBJECTIVE 1 - PROMOTING FINANCIAL STABILITY

Promoting financial stability at the level of the Financial Supervisory Authority is achieved by:

- identifying, assessing and presenting trends and risks in non-bank financial markets for micro-prudential, macro-prudential and integrated supervision, using and developing specific risk management tools, techniques and mechanisms;
- identifying and analysing risks, conducting stress tests and simulations for crisis management;
- continue analyses to highlight the main problems in the insurance market, in particular in the MTPL segment, in the capital market and in the private pension market, correlated with elements of conduct, petitions, consumer protection and micro-prudential supervision indicators; identify optimal solutions to the problems identified, taking into account their seriousness and setting priorities;
- supervision of entities in the three sectors of activity by ensuring mechanisms for streamlining their operations, ways of assessing and preventing risks that may affect the areas of activity of the Financial Supervisory Authority;
- ensuring financial discipline, conduct of business rules for supervised entities and markets and their transparency;
- ensuring the regulatory framework, in line with European standards and the application of best practices, for the efficient functioning of the entities and markets supervised by the Financial Supervisory Authority;
- developing/updating resolution plans for insurers with a significant weighting by the end of 2021;
- carrying out of the valuation exercise of the assets and liabilities of insurance companies(BSR) according to the steps set out in the terms of reference;
- conducting the liquidity stress testing of investment funds, with a deadline of the third quarter of 2021;
- supporting innovative technological developments in a controlled manner and for the benefit of consumers, with the protection of their rights and interests;
- strengthening macro-economic financial integrity and stability by establishing partnerships with other authorities and institutions, with the aim of developing the national economy;
- participation in the work of the National Committee for Macroprudential Oversight (NCMO) and the European Systemic Risk Board (ESRB), in the structures and in relation to the work of risk identification and analysis, stress testing and crisis management.

OBJECTIVE 2 - ENSURING CROSS-SECTORAL CONVERGENCE - BUILDING COMMON BENCHMARKS AND BEST PRACTICES ACROSS THE THREE MARKETS MONITORED

Supervisory and legislative convergence work is a collective effort of all supervisory sectors to achieve a high, effective and consistent level of performance at the institutional level. Thus, in 2021, convergence is another targeted objective through which we will aim to improve the functionality of the markets, building common benchmarks and best practices for the three markets supervised through:

- ensuring correlation between the three core functions of regulation, licensing and supervision to optimise flows and the way the supervisory activity works as a whole;
- harmonising rules and practices across the three financial sectors by reviewing and updating the integrated regulatory framework;
- convergence of supervisory practices through cross-sectoral transposition of best practices in the application of regulations, methodologies and/or working procedures related to supervisory, control and authorisation/approval activities;
- identifying, monitoring and assessing trends and risks in non-bank financial markets for integrated supervision, with a focus on the most significant specific risks;
- harmonisation of the authorisation process - approval of regulated entities and changes in their organisation and operation;
- monitoring the maintenance of a high quality of results in the licensing activity, leading to improvements in the ability of entities to operate effectively.

OBJECTIVE 3 - UPDATING AND HARMONISING THE REGULATORY FRAMEWORK

With regard to the legislative framework planned for 2021, we can say that the regulatory activity is extensive and aims to review, amend and supplement the regulatory provisions in force in order to strengthen and create a harmonized framework so that the functioning and transparency of financial markets exist in the correct parameters of European and international standards.

3.1. Planned regulatory activities in the Financial Instruments and Investments Sector

In line with the strategic objectives, capital market regulations will focus on the following normative acts:

- Drafting of a legislative act to adopt implementing measures for the EU Regulation on European providers of equity financing services to businesses, with a deadline of the first quarter of 2022;

The draft normative act laying down the implementation of measures for Regulation (EU) 2020/1503 on European providers of business equity finance and amending Regulation (EU) 2017/1129 and Directive (EU) 2019/1937 will mainly contain provisions on the competent authority, sanctioning regime and cooperation between competent authorities at EU level.

➢ Review and update national primary and secondary legislation on investment management/investment funds (UCITS and AIFs) in order to transpose the provisions on their cross-border distribution, following the amendment of the two investment management framework directives (UCITS and AIFMD), to be completed by the second quarter of 2022;

In this regard, a draft law is being prepared to amend and supplement *Government Emergency Ordinance No 32/2012 on undertakings for collective investment in transferable securities and investment management companies*, as well as to amend and supplement *Law no. 297/2004 on the capital market* and to amend and supplement *Law no. 74/2015 on alternative investment fund managers*, which will mainly ensure the national transposition of the provisions of Directive 1160/2019 amending Directives 2009/65/EC and 2011/61/EU as regards the cross-border distribution of collective investment undertakings. Thus, provisions are introduced on the possibility of withdrawal of the notification of cross-border distribution of units, including, where applicable, certain classes of shares/units by S.A.I./A.F.I.A. which have notified the distribution in certain Member States, as well as on the concept of pre-marketing.

➢ Develop and finalise a draft law for the transposition of the following directives with transposition deadlines in the first half of 2021:

- Directive (EU) 2019/2034 on the prudential supervision of investment firms and amending Directives 2002/87/EC, 2009/65/EC, 2011/61/EU, 2013/36/EU, 2014/59/EU and 2014/65/EU;
- Directive (EU) 2019/2177 amending Directive 2009/138/EC on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II), Directive 2014/65/EU on markets in financial instruments and Directive (EU) 2015/849 on the prevention of the use of the financial system for the purpose of money laundering or terrorist financing - Article 1;
- Directive (EU) 2020/1504 amending Directive 2014/65/EU on markets in financial instruments.

The aforementioned draft law will also establish a national penalty regime in application of Article 22 of Regulation (EU) no. 2020/852 of the European Parliament and of the Council of 18 June 2020 establishing a framework which would facilitate sustainable investment and amending Regulation (EU) 2019/2088 and introduce provisions amending Law No 126/2018 on markets in financial instruments.

➢ Updating the secondary regulations applicable to issuers of financial instruments and market operations, in line with the amendments to the primary legislation (Law no. 158/2020 amending Law no. 24/2017) - amendment of Regulation no. 5/2018 on issuers of financial instruments and market operations, to be completed in the fourth quarter of 2021;

➢ Review and update national secondary legislation on S.S.I.F. (Financial Investment Services Companies) and regulated markets, following the adoption of the aforementioned draft law and in order to adapt to the requirements imposed by Regulation (EU) 2019/2033 on prudential requirements for investment firms and amending Regulations (EU) no. 1093/2010, (EU) no. 575/2013, (EU) no. 600/2014 and (EU) no. 806/2014. To this end, at least the following regulations will be amended, with a deadline for completion by the end of 2021:

- Regulation no. 3/2014 on certain aspects on the application of Government Emergency Ordinance no. 99/2006 on credit institutions and capital adequacy and Regulation (EU) no. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) no. 648/2012;
- Regulation no. 13/2018 on trading venues;

➢ Review and update national primary and secondary legislation on S.S.I.F. (Financial Investment Services Companies) and regulated markets, with a view to transposing the directives currently in the process of being drafted and expected to be adopted by the end of this year or in the first part of 2021 (e.g. those in the Capital Markets Recovery Package - CRR) or by the end of the year as per the intentions of the European Commission expressed in the Capital Markets Union (CMU) Action Plan, on a continuous basis throughout 2021, subject to the approval of European legislation.

3.2. Regulatory activities planned for the insurance - reinsurance sector.

In 2021, we continue to improve the regulatory framework, in order to ensure firm and solid preconditions for the development of the insurance market. In this respect, the regulatory activity program for the insurance-reinsurance sector involves the issuance and, where appropriate, the adoption of new drafts for normative acts, ensuring coherence, transparency and predictability, as follows:

➢ Initiation of proposals to amend primary legislation, in line with the evolution of the legislative framework at European level and in line with the multiannual strategic objectives;

➢ Draft rule for the amendment of Rule no. 20 on motor vehicle insurance in Romania, a draft to be prepared after the amendments made to Law no. 132/2017;

- ➢ Reforming Rule no. 28/2015 on the operation of supervised insurers according to the national regime, a draft to be started in the fourth quarter of 2021;
- ➢ Draft rule on the application of the Solvency II regime at company level, a draft to be prepared in the second semester of 2021;
- ➢ Draft rule on branches of third country insurers, which provides for its application in the first quarter of 2021;
- ➢ Draft rule on the application of the Solvency II regime at group level, a draft to be to be started in the fourth quarter of 2021;
- ➢ Adoption of European guidelines (issued by EIOPA) and their implementation in the regulatory framework related to secondary legislation issued by the Financial Supervisory Authority.

The following steps will also be considered in order to improve and harmonize the applicable legislative framework by:

- ➢ Participation in the meetings of the working group set up at the level of the Council of the European Union on the amendment of the Directive 2009/103 / EC on motor vehicles;
- ➢ Participation in the meetings of the group of experts on Banks, Insurance and Payments set up at the level of the European Commission, for topics related to:
  - revision of Directive 2009/138 / EC - Solvency II;
  - the introduction of principles generally applicable to Member States on recovery and resolution;
  - the introduction of principles generally applicable to Member States with regard to guarantee schemes.
- ➢ Participation in the meetings of the CCPFI-EIOPA working group on:
  - revision of Directive 2016/97 on insurance distribution;
  - revision of Regulation 1286/2914 on key information documents on packaged retail investment and insurance-based products (PRIIP);
  - revision of Regulation 2019/2088 on sustainability-related disclosures in the financial services sector;
  - revision of EIOPA-BoS / 18-340 Decision on the collaboration of the competent authorities of the Member States with regard to Directive 2016/97.

3.3. Regulatory activities planned in the Private Pension System Sector

For the **Private Pension System sector**, punctually, the objectives and activities related to their implementation for 2021 can be summarized as follows:

- ➢ Promoting legislative measures for the development of private pension funds, by issuing regulations aimed at increasing the efficiency of the functioning of the private pension system having as a proposed deadline for implementation the end of the second semester of 2021;

- supplementing the secondary regulatory framework in order to develop private pension funds in line with identified needs and increase efficiency.

➢ Inventory of the active body of primary legislation and formulation of proposals for its revision, updating and completion, having as proposed implementation deadline the end of the first semester of 2021;

- inventory and revision of the active body of secondary legislation and, where appropriate, consolidation, republication or removal / repeal of those rules that are no longer necessary, as appropriate.

➢ Continuation of the steps for the adoption of the framework regarding the organization and operation of the private pension payment system, having as proposed implementation deadline the end of the first semester of 2021;

➢ Adjustment of the investment horizon in the field of private pensions, by regulations that encourage the diversification of privately managed and voluntary pension fund portfolios in accordance with the growth rate of the value of pension funds, having as proposed implementation deadline the end of the first half of 2021.

3.4. Planned activities for the development of the integrated regulatory framework

Ensuring intersectoral convergence and harmonization of rules and practices at the level of the three financial sectors continues in 2021 by analyzing, updating and completing the integrated regulatory framework by:

➢ Revision of Regulation no. 11/2016 on the periodic and unannounced control activity carried out by the Financial Supervisory Authority - the draft is to be submitted for public consultation in the first quarter of 2021;

➢ Revision of Regulation no. 1/2019 on the evaluation and approval of the members of the management structure and the persons holding key positions within the entities regulated by the Financial Supervisory Authority - the draft of the normative act is to be submitted for public consultation in the first semester of 2021;

➢ Issuance of an integrated Regulation on the content, methodologies and presentation of information on indicators relating to sustainability in the financial services sector (ESG risks) with a view to establishing harmonized and transparent rules on informing investors in non-banking financial products about environmental, social and governance risks related to investments - the draft of the normative act will be submitted for public consultation at the latest in the third quarter of 2021;

➢ Preparation of other drafts of normative acts correlated with the documents adopted jointly by the European supervisory authorities ESMA and EIOPA, according to the implementation calendar established for 2021 by these authorities.

OBJECTIVE 4 - Strengthening supervisory functions

4.1. The strengthening of the supervisory function in the financial instruments and investments sector will be ensured by:

➢ Development of the means necessary to apply the supervision and control principles and techniques related to RBS (*risk based supervision*) by:

- strengthening the risk-based supervision framework, through the implementation of automated processes (business intelligence solutions - BI) and standardized reporting, having as a starting deadline the year 2021 and completion of the entire BI process at the level of the authority the year 2023, being closely related to the deadlines provided in the IT strategy at the authority level;
- real-time streamlining the process of monitoring of the trading activity on regulated markets / alternative trading systems to identify transactions / orders that generate an abnormal evolution of price and volume, by implementing dedicated IT solutions, with a deadline of 6 months for the acquisition of modern supervisory software[17] and 6 months for its implementation starting from the acquisition[18].
- improving the quality of the reported data as an ongoing priority and a necessary condition for risk-based supervision, the process being permanent;
- orienting supervisory resources mainly towards financial activities / products / entities with a high degree of risk;
- assessing the impact of technological developments at the level of capital market entities / investors, taking into account the risks associated with them, having as implementation deadline the first semester of 2021;
- substantiation of the control issues according to the RBS principles, by determining specifically, for each controlled entity, the risk areas on which the control team will focus;
- monitoring the results of controls according to RBS principles (specific follow-up actions so as to verify the implementation of measures imposed as a result of periodic and unannounced controls).

➢ Participation in joint supervisory actions launched by ESMA, as well as sharing information and expertise with other national competent authorities, in the European working groups or on a bilateral basis, ensuring contributions to increase the convergence of supervision at European level:

[17] with SSEMT business support and Procurement Service support
[18] with SSEMT business support and IT support

- strengthening the supervision / control of investment companies and investment managers based on best practices in the European Union (ESMA Q & As, Guidelines and Supervisory briefings);
- conducting thematic exercises to assess the consistency of the uniform implementation at market level of the new European requirements regarding the activity of investment companies and investment directors, taking also into account the supervisory priorities set at EU level for 2021;
- intensifying the supervisory act over cross-border activities;
- implementing the new prudential regime applicable to financial investment service companies;
- identifying and analyzing the new threats / risks faced by capital market entities, in the context of the effects generated by the Covid-19 pandemic and adapting the specific supervisory and control tools to the evolution of the pandemic.
- carrying out the actions agreed with ESMA and other European authorities through coherent methodologies aimed at maintaining the quality of the data and increase their usability, with a view to developing the supervisory activity based on the reported information, the deadline being set according to the purpose, which can be quarterly / half-yearly / annual.

We also mention that the majority of the listed objectives are perpetual, given that the supervisory and control activity always takes into account the European best practices in the field.

4.2. Strengthening the supervisory function in the insurance-reinsurance sector will be ensured by assessing risks and strengthening prudential and conduct supervision practices.

During 2021, in addition to the permanent supervisory and control processes, a main role will be reserved for highlighting the risks generated by the Covid-19 crisis. Therefore, in the next period, we will focus on the following:

- identifying, monitoring and addressing the main risks that contribute to harming consumers by assessing the costs and potential difficulties generated by the economic impact of the crisis, such as the lack of liquidities, the complex structure of tariffs for unit-linked products;
- monitoring and addressing risks related to product design and product reviews - in the light of product oversight and governance (POG) - and the impact of the COVID-19 crisis - assessing product-related issues, treatment and potential harm to consumers,
- assessing the sustainability of business models, the projections regarding the solvency and profitability within the stress tests considering the development of the project regarding the evaluation exercise of the assets and liabilities on the Romanian insurance market;

- following up the implementation of the measures ordered following the previous control actions and, as the case may be, identifying the next steps to ensure compliance with the prudential legal requirements.

The implementation of the measures set up in the project "Technical Assistance on strengthening the function of the Financial Supervisory Authority for the supervision of the conduct on the Romanian insurance market", carried out with the support of EIOPA and the European Commission, involved, in a first phase, the preparation of a supervisory manual on the conduct in the insurance field. This will continue through the development, with the support of EIOPA experts, of a set of procedures and guidelines, based on which the supervision and control activities will be carried out in the conduct area of the entities operating in the insurance market.

In order to strengthen conduct supervision practices, the following main activities are planned for 2021:

- Updating the procedural framework on the conduct of supervisory and control activities in the conduct area in entities operating in the insurance market, in order to implement and adapt the concepts and processes that were the subject of the Project "Technical Assistance on strengthening the function of the Financial Supervisory Authority for the supervision of the conduct on the Romanian insurance market", carried out together with the European Commission and EIOPA;
- Preparation and publication of a guide addressed to the entities supervised by the Financial Supervisory Authority, regarding the typology of conduct risks and identification of their generating factors throughout the life cycle of insurance products, in order for them to adopt measures for the prevention and mitigation of these risks;
- Assessing the conduct risks related to distributed insurance products, especially in the context of the COVID pandemic, from the perspective of accelerating the digitization process in the field of distribution, as well as adapting products to new customer requirements and needs;
- Assessing the conduct risks at the level of insurance companies and their classification according to risk, based on the analysis of conduct risk indicators, as well as the quality aspects identified during the supervision process;
- Preparing and approving the conduct supervision plan, based on the risks identified at the market level, the score assigned to insurance companies, as well as the resources available at the level of the specialized structures of the Financial Supervisory Authority;
- Applying different supervisory instruments depending on the type, extent, complexity and impact of the risks identified at the level of the market and / or supervised entity:
    - insurance market monitoring;
    - thematic supervisory actions;
    - supervisory activities from the main office of the Financial Supervisory Authority (off-site);
    - supervisory actions performed at offices of the entities (on-site) etc.

➢ Developing and approving annual control plans, based on the risks identified in the ongoing monitoring process, previous control actions, as well as other relevant elements identified during regular reporting.

4.3. Strengthening the supervisory function in the private pension sector

At the level of the **private pension system sector**, in order to strengthen the supervisory function in 2021, activities will be initiated and implemented, aimed at developing information system applications for reporting and adapting the corresponding activities following the implementation of the Occupational Pensions Law and PEPP application, by the following specific measures:

- development of supervision and control activities in accordance with the requirements of the Occupational Pensions Law and of the PEPP;
- supplementing the statistics with updated information in accordance with the requirements of the Occupational Pensions Law, as well as with those regarding the payments made in the private pension system.

OBJECTIVE 5 - STRENGTHENING INSTITUTIONAL CAPACITY

The way in which the Authority is organised is crucial to its efficient operation and the achievement of its medium and long-term objectives. The smooth performance of the duties of the Financial Supervisory Authority contributes to maintaining credibility, promoting confidence in the markets and supervised entities and enables it to act preventively and reactively, in a transparent and proportionate manner, whenever necessary, so as to fulfil its mission.

In the context of the global trend of increasing digitalisation and the rapid progress taking place in the supervised markets, the Financial Supervisory Authority has significant potential to improve its work and align with best practices to ensure the achievement of its core objectives.

In this context, the Financial Supervisory Authority considered it necessary to carry out a comprehensive analysis, both from the perspective of its human resources component and from the perspective of its organisational structure, in order to identify ways to make it more efficient and optimised. The purpose of the analysis is to contribute to the organisational assessment process, aiming at defining a more efficient structure at the level of the Authority, with a view to improving performance and optimising the activity and governance of the Financial Supervisory Authority.

As a result of the detailed analysis of all aspects, a number of conclusions and recommendations have emerged, which will be taken into account in the process of streamlining the way of functioning in order to modernise and develop the Authority in the medium and long term (1-3 years), as well as a number of concrete suggestions for organisational transformation that can be implemented in the short term (during 2021).

Thus, based on the existing structure, numerous opportunities to improve the organisational performance of the Financial Supervisory Authority have been identified, which should be addressed in an integrated way, taking into account the strategy and main targets developed by the Authority for the coming years.

Taking into account the conclusions of the analysis carried out, the medium and long-term recommendations, as well as the current context generated by the Covid-19 pandemic, it has emerged that the organisational structure of the Financial Supervisory Authority should be adjusted. The disruption of the economy caused by the Covid-19 pandemic is reflected in the financial markets, with financial asset prices adjusting, and the Financial Supervisory Authority should therefore also take these developments into account in the reorganisation of its work.

The analysis of the work of the Financial Supervisory Authority showed the need for better integration in the performance of its functions and the fulfilment of its legal objectives, while modernising the infrastructure of the institution (IT, workspace, etc.). This implies a rethinking and restructuring of specific and support functions in order to achieve better centralisation, allowing for improved workflows and more efficient decision-making processes.

From the point of view of the impact of the institutional reorganisation, its implementation is expected to result in savings in the budget of the Financial Supervisory Authority, given the reduction in the number of directorates and thus in the number of senior staff with higher salaries, combined with the adjustment of the salary range for executive positions.

Thus, in order to ensure a unitary strategic coordination and to pursue the implementation of better institutional governance, it is envisaged to implement a unitary approach to the management of the three sectors, by coordinating all services under one Directorate-General. This streamlined structure will eliminate bureaucratic processes and improve communication, both between the specialised structures in the sectors and at cross-sectoral level, in particular between the structures responsible for regulation, authorisation and those responsible for supervision and control.

The implementation of the actions and measures necessary to achieve the strategic and annual objectives also implies strengthening the institutional capacity, improving the image of the institution through coherent, correct, efficient and swiftly implemented activities. To this end, taking into account the size and complexity of the institution's field of activity, it becomes mandatory to ensure adequate resources for the fulfilment of its duties, both at national and European level.

It is clear that we are witnessing a massive digitalisation of both human relations and the activities that the authority carries out under its powers, and this will inevitably impact on current business models. The future will be much more digital and will drive a surge in cutting-edge technologies and generate the development of many activities in cyberspace, and those who do not miss the departure from the blockstart will benefit from the advantages due to existing innovations.

The establishment of an IT infrastructure adapted to the real needs, through the complete modernization of the existing hardware and software elements, as well as the rethinking of the existing IT services in order to make the whole activity at the level of the Financial Supervisory Authority more efficient, is an essential element of the Authority's strategy, meaning in fact access for both the institution and the consumers to the top IT capabilities, facilitating Romania's presence on the same level of development with the countries of the European Union.

Undoubtedly, for the year 2021, **digitalisation** is one of the main lines of action for the Financial Supervision Authority, contributing to the organisational transformation of the Authority and to improving performance in all areas of its activity. It is time to make the most of the possibilities of interacting in the digital environment and, in addition, to identify new ways of action leading to the achievement of organisational goals.

The **IT strategy** for the coming period is a natural and organic continuation for this area, all the more so as during 2020, important adjustments and improvements have been made to the entire IT infrastructure at the level of the institution, especially in the context of the Covid-19 pandemic.

The most important IT project in the Financial Supervisory Authority's Strategy for 2021-2023 is the operationalisation of an integrated hardware and software infrastructure, which supports the Authority's development strategy, streamlines the use of computing, storage and data communication resources, increases the flexibility and agility of IT service delivery, ensures a high degree of cyber security, ensures continuity of services, and protects data in case of disaster. The proposed solution is a modern IT infrastructure, at the level of current best practices in the IT industry, with "hyper-converged"[19] cloud computing architecture, with the necessary capabilities to make IT resources available to users as a combination of functionalities and services from its own infrastructure, "Private Cloud on-premises" hosted and operated by the Financial Supervisory Authority, as well as integration with services offered by public cloud operators ("Public Cloud").

Another important project in 2021 will be the implementation of the Authority's information security policy (part of the Financial Supervisory Authority's IT Strategy

19 Fully software-defined IT infrastructure that virtualizes all elements of conventional hardware systems, i.e. computing power, storage, networking. Each conventional hardware element is distributed on each hyperconverged node (server), and there is no dedicated equipment performing these functions (e.g. dedicated storage devices).

for the period 2021 - 2023), which involves an intelligent approach in this area across several areas of interest, in particular by implementing technical and non-technical measures in the priority security areas respectively:

- implementing a solution to protect against cyber threats;
- implementing an identity and access management (IAM) solution;
- implementing a solution for the investigation and analysis of security events - SIEM (Security information and event management);
- implementing a disaster recovery (DR) solution.

Also, given that the role and impact of digitalisation and financial innovation are constantly evolving, influencing business models, products and services offered, distribution channels, as well as increasing exposure to cyber risks, the main points of the EU digitalisation agenda are also reflected in the objectives of the Financial Supervisory Authority with regard to information technology projects.

Thus, the IT projects we are considering support and converge towards digitalisation and the widest possible use of financial innovation and IT solutions in all areas of activity. One of the most eloquent examples is the adoption of Instruction No. 3/2020 on submitting reports and other documents in electronic format to the Financial Supervisory Authority in 2020. Thus, following the adoption of this Instruction, a project on electronic document archiving will be initiated at the level of the Financial Supervisory Authority during 2021.

Also assuming its role as a promoter of financial innovation, at the end of 2020, the Financial Supervisory Authority launched a pilot project to test the applicability of **blockchain technology** within the Authority, with a functional prototype of an IT system based on blockchain technology for a business process to be implemented by the end of the first quarter of 2021. The next step is to implement DLTblockchain technology at the level of some activities/processes, carried out both within the Authority and in the financial markets supervised by the Authority.

The implementation of new technologies will transform the supervisory process from a reactive one to a continuous and forward-looking one, based on the processing and interpretation of both quantitative and qualitative information received from supervised entities; for example, the possibility for the supervisor to analyse the company's decision-making process may lead to relevant conclusions on the ability of its management to prudently manage the company in question; thus providing an additional real-time tool in the supervisory process, based on which the supervisor can take appropriate preventive measures in the event of deterioration of the company's financial position due to inappropriate decisions taken by its management at some point.

In order to ensure the effectiveness of the supervisory process, all actions taken by the Authority shall be proportionate to the nature, scale and complexity of the risks inherent in an entity's business and closely related to the importance of that company for the stability of the market.

By implementing DLT-blockchain technology at the level of certain activities/processes, the Financial Supervisory Authority thus has the necessary means for prudential and preventive supervision based on the assessment of risks that may also manifest themselves at systemic level.

The new supervisory model allows the Authority to have the necessary powers to intervene when an entity is faced with a situation that could harm consumers in the non-bank financial markets.

The objectives of the Financial Supervisory Authority, since its establishment, have been to ensure the stability, competitiveness and orderly functioning of financial instruments markets and to promote confidence in these markets and in investments in financial instruments. All these goals can only be achieved if there is a very good knowledge of the markets being supervised, and knowledge in turn is based on information. The quality of supervision is directly proportional to the quality and relevance of the information available, regardless of its source.

A modern, fast and efficient decision-making process must always take into account the big picture, and the big picture is made up of a multitude of discrete, constantly changing elements. The ever-increasing speed of these changes requires a constant effort of adaptation on the part of the authority, which can only be sustained by high-performance IT solutions covering the entire life cycle of the data collected.

Another area of focus in 2021 will be on **increasing dialogue** with stakeholders and **improving communication** at both institutional and inter-institutional level. The changes already undertaken in this respect increase the transparency and professionalism of the institution and bring a new vision to the relationship between the Authority and the main actors in the three regulated and supervised markets.

According to the strategy, the long-term communication objective is to **promote and strengthen the image and public perception of the Financial Supervisory Authority, both domestically and at European level,** positioning the Authority as a strategic one**, of major importance for the national and regional economy and a central pillar in ensuring the financial stability of the Romanian economy, a major institutional partner in national financial education programs.**

In the external environment, the Authority's strategy will contribute to:

- ➢ strengthening the institutional reputation and increasing awareness of the role and work of the authority;
- ➢ raising public awareness of the reform and modernisation process that the Authority is undergoing in order to promote confidence in the markets;
- ➢ active participation in national EduFin processes and programmes (on the Authority's own behalf, but also promoting integrated SFA-SIFI activities), which raise the level of economic and financial literacy of the general public and build positive public perceptions of the Authority's role in society.

Internally, in terms of communication, the Financial Supervisory Authority's strategy aims to:

- ➢ building a strong organisational culture and a unified communication procedure (across all three supporting sectors);
- ➢ streamlining internal and external communication processes with all stakeholders;
- ➢ developing communication products and processes that contribute to the synergistic/integrated functioning of all entities regulated and supervised by the Financial Supervisory Authority, including the FSI.

According to the Financial Supervisory Authority strategy, the major directions and principles of the FSA's strategic communication are:

- ➢ developing internal and international communication campaigns to raise awareness of the role of the Financial Supervisory Authority and developing and strengthening a positive reputation and perception, with the allocation of appropriate human resources, creative resources and budgetary resources;
- ➢ building a direct relationship with local and regional media in order to build a positive public perception at national level;
- ➢ developing and maintaining a good relationship with the press;
- ➢ speed of reaction, promptness, honesty in dealing with communication stakeholders;
- ➢ humanizing communication;
- ➢ changing perception through flexibility.

At the same time, the communication strategy at the level of the Supervisory Authority **contains sets of key messages that convey and build public perceptions proposed for the coming period,** all built around the central ideas that the **"Financial Supervisory Authority" is a pillar of development for the Romanian society, it is a state authority that is transparent, efficient, oriented towards the future and sustainable development, working for the benefit of Romanians and ensuring the financial stability of Romanians.**

The strategy also proposes to **improve the Authority's visual identity** in order to achieve a better positioning and therefore a more favourable perception of the Authority, both among the general public and also among key stakeholders. **The new visual identity** should reflect the changes in approach brought about by **the new strategy of the Financial Supervisory Authority**.

At the same time, the Authority **will increase the role of its activity and actions in the development of inter-institutional relations**, by observing and analysing the implications of parliamentary initiatives on the Authority's activity; presenting the results of our activity in Parliament, respectively in the specialised parliamentary committees; starting an initiative to promote the activity and reports of the Financial Supervisory Authority to the most important dignitaries of the Romanian State, in the Parliament, respectively to the specialised parliamentary committees; increasing the Authority's visibility by preparing a material presenting the institution to be sent to Members of Parliament, members of the Government, the media, citizens and other target groups; ensuring the presence of the Financial Supervisory Authority in the Parliament's work and in the specialised parliamentary committees when initiatives with an impact on the Authority's activity are debated; other specific activities.

In order to promote and strengthen the public image and perception of the Financial Supervisory Authority, both domestically and at European level, we will focus on added value, providing real-time information by developing new media channels with content and purpose tailored to the strategic communication and financial education approach.

Financial education projects will be adapted to a digital culture, where control lies with the consumer of information, from the way topics are covered to the choice of channels.

To this end, in 2021 we will develop programs and actions aimed at transforming the Authority into an important pillar for the evolution of the Romanian society, a transparent, efficient authority, oriented towards the future and sustainable development, of which we mention:

- **The implementation of a national, strategic, national education programme, in close inter-institutional collaboration: "Financially Educated Romania";**
- Carrying out an annual integrated ASF-ISF survey on the degree of financial education - which can generate directions for development of programs to combat eco-financial illiteracy;
- **Set up and intensively communicate of a scholarship/training/internship program "Financial Supervisory Authority for Financial Education";**
- Developing the brand "Financial Supervisory Authority Programs for Excellence" under which projects related to the educational approach can be developed;
- Financial Supervisory Authority Awards for Financial Education - recognition of financial education programs developed by entities in regulated markets;
- Financial Education Day - promoting financial education in public spaces through creative projects;

- **Implementing an integrated financial education strategy in collaboration with the Institute for Financial Studies - initiate a series of joint studies and analyses.**

Recent developments in markets, the regulatory framework and consumer behaviour as a whole lead to **emerging risks**, which in turn evolve in direct proportion to political and social changes.

Thus, the Financial Supervisory Authority strengthens its resilience in terms of adaptability to change and contributes to the continuous development and improvement of its core functions so that addressing risks is within reach and reflects institutional stability. There is no doubt that the assessment of emerging risks and vulnerabilities needs to be a constant concern for the Financial Supervisory Authority.

In 2021, in order to meet the challenges facing regulated and supervised markets, resilience and adaptability are two of the prerequisites needed to mitigate emerging risks and vulnerabilities, alongside the development and implementation of a well-developed risk warning system.

In conclusion, in order to achieve the objectives and to strengthen the institutional architecture and culture, the lines of action in 2021 will focus mainly on:

- improving professional expertise and skills, fair and ethical conduct in order to add value to the activities carried out by the authority;
- identifying, assessing, preventing or mitigating emerging risks in the context of the Covid-19 pandemic and operational risks arising from the use of technological innovations;
- continuing the process of digitalisation and widespread use of electronic signatures and electronic correspondence, including the development of technical measures for electronic archiving;
- the renewal of IT equipment and the implementation of new IT solutions and applications to support the efficiency of the activities carried out;
- enhancing dialogue with stakeholders and improving communication, both at institutional and inter-institutional level.