

STANDARD TWINNING LIGHT PROJECT FICHE

1. Basic Information

- 1.1 Publication notice reference:
- 1.2 Programme: Transition Facility IPA/2013/24986 (Annex of C (2013) 8057 final); Institution Building Envelope
- 1.3 Twinning Number: HR 14 IPA FI 01 16 TWL
- 1.4 Title: Improving Reporting Process related to Derivatives Exposure and Derivatives Trading in Croatian Financial Services Supervisory Agency (CRO DERIV)
- 1.5 Sector: Public Finance
- 1.6 Beneficiary country: Republic of Croatia

2. Objectives

2.1 Overall objective:

The overall objective is strengthening of the supervisory and regulatory role of the Croatian Financial Services Supervisory Agency (HANFA) and ensuring financial stability in non-banking financial sector. More specifically, the project implementation will lead to fulfilment of the following specific objectives:

- Upgrading the on-going monitoring and supervision of supervised entities regarding the calculation of total as well as economic exposure, investment limits and valuation of assets;
- Improving effectiveness and efficiency in monitoring of risks associated with derivatives trade of supervised entities in line with the EU and national regulations;
- Ensuring efficient reporting of HANFA to the European Securities and Markets Authority (ESMA), European Insurance and Occupational Pensions Authority (EIOPA) and relevant national supervisory authorities;
- Improving efficiency of on-going monitoring and management of systemic risks of the whole market of non-banking sector on the national level.

2.2 Project purpose:

The project purpose is improving reporting process related to derivatives exposure and derivatives trading in HANFA which will enable HANFA for more effective monitoring of the underlying risks, the quantitative limits and the methods which are chosen in order to estimate the risks associated with transactions in derivative instruments.

2.3 Contribution to Accession Treaty/Relevant national documents:

Following the signature of the Accession Treaty on 9 December 2011 and its ratification procedure in the Member States, Croatia joined the European Union on 1 July 2013 as the 28th Member State. The Accession Treaty sets provisions related to Structural and Cohesion funding and co-financing. The project will contribute to successful development of supervision system of non-banking financial sector as well as harmonization of working methods that have been applied in Member States of the European Union.

Upon the accession of Croatia to the European Union, HANFA became a voting member of the Board of Supervisors of the European Insurance and Occupational Pensions Authority (EIOPA) and the European Securities and Markets Authority (ESMA), which were established by the Regulation (EU) No. 1094/2010 and Regulation (EU) No. 1095/2010 respectively. In line with competences given to the European Supervisory Authorities (ESAs) in founding regulations, Omnibus I

Directive No. 78/2010, as well as recently adopted legislation in the field of financial services, HANFA has to comply with various reporting requirements to ESAs. The purpose of data exchange between ESAs and national supervisory authorities is to ensure the proper application of the EU regulations applying to the financial sector in order to maintain financial stability and ensure confidence in the financial system as a whole and adequate consumer protection.

According to Article 51(1) of the Directive 2009/65/EC of the European Parliament, a management or investment company of Undertakings for Collective Investment in Transferable Securities Directives (UCITS) shall employ a risk management process which enables it to monitor and measure at any time the risk of the positions and their contribution to the overall risk profile of the portfolio. It shall also communicate to the competent authorities of its home Member State regularly in regard to the types of derivative instruments, the underlying risks, the quantitative limits and the methods which are chosen in order to estimate the risks associated with transactions in derivative instruments regarding each managed UCITS.

In accordance with Article 24 (1) and (2) of the Directive 2011/61/EU of the European Parliament, an Alternative Investment Fund Managers (AIFM) shall regularly report to the competent authorities of its home Member State on the principal markets and instruments in which it trades on behalf of the Alternative Investment Funds (AIF) it manages, as described in detail of Annex IV-Specific information to be provided to competent authorities of the Commission Delegated Regulation EU 231/2013.

Having in mind the national regulatory framework of mandatory and voluntary pension funds where they use derivatives as purpose of protection of pension fund asset and within techniques of efficient portfolio management, as well the importance of pension funds in the market of Croatian non-banking sector, they also have obligation of reporting all derivative trades according to Article 51 (10) of Mandatory Pension Funds Act and Article 58 (11) of Voluntary Pension Funds Act.

Insurance companies according to Article 118 of Insurance Act which possess derivatives must inform the competent authority. In addition, following the rules of Solvency II Directive, insurance companies are required to submit reports on derivatives from 1 January 2016 (according to EIOPA reports).

The provisions of Regulation (EU) No. 648/2012 of the European Parliament and the Council of 4 July 2012 on Over-the-Counter (OTC) derivatives, central counterparty and trade repositories (hereinafter: EMIR) entered into force on 16 August 2012 and were applicable to Croatia after joining the European Union. The Act on the Implementation of Regulation (EU) no. 648/2012 of the European Parliament and the Council of 4 July 2012 on OTC derivatives, central counterparty and trade repositories stipulates that HANFA and the Croatian National Bank are authorities for the supervision of the application of EMIR in Croatia, and in accordance with the existing division of powers, the supervised entities. HANFA in terms of the application of EMIR is overseen by legal persons defined as "financial counterparty" (with the exception of credit institutions supervised by the Croatian National Bank) and "non-financial counterparties".

In 2013, Croatian Parliament pursuant to the Article 89 of the Constitution of the Republic of Croatia has issued Decision promulgating the Act implementing Regulation (EU) No. 648/2012 of the European Parliament and the Council of 4 July 2012 on OTC derivatives, central counterparty and trade repositories.

The aim of EMIR is to minimize the risks arising from OTC derivatives, as well as defining the conditions under which central counterparty operates. EMIR has introduced an obligation for transparent reporting on derivatives trading to trade repositories, allowing EU competent authorities to have access to open OTC derivatives trades and to mitigate potential risks arising from derivative

markets.

The Commission Communication of 4 March 2009, entitled 'Driving European Recovery' proposed to strengthen the Union's regulatory framework for financial services. The mentioned document foresees that the European Commission will propose appropriate initiatives to increase transparency of derivatives markets and ensure financial stability as a matter of priority in the upcoming months. Moreover, in the Commission Communication of 3 July 2009 entitled 'Ensuring efficient, safe and sound derivatives markets', the Commission assessed the role of derivatives in the financial crisis which highlighted the significant role played by financial derivatives in general. Since the beginning of the financial crisis, the European Commission has been working to address the most urgent of risks associated with derivatives. In the Communication of 20 October 2009 entitled 'Ensuring efficient, safe and sound derivative markets: Future policy actions', the Commission outlined the actions it intends to take to reduce the risks associated with derivatives. The various derivatives market segments differ in their characteristics, namely in terms of risk, operational arrangements and market participants. The European Commission believes that a comprehensive policy on derivatives is necessary in order to avoid market participants exploiting differences in rules. However, where justified, future policy proposals will duly take into account the specificities of the asset class and contracts involved as well the specificities of the market participants, also striking the right balance between financial and non-financial institutions.

Partnership Strategy between the World Bank Group and the Republic of Croatia¹ states that recent credit rating downgrades in spite of a strong revenue performance in 2012 constitute a tangible sign that sustained fiscal adjustment through microeconomic reforms at the sector level is a priority. In parallel, the need for better resilience to external shocks, improved private sector competitiveness and strong EU membership will also define Croatia's development strategy during the next decade. The risks to the strategy are significant as any delay in reform would hinder expected recovery and macroeconomic stabilization at the beginning of Croatia's membership.

Through this project improved reporting process related to derivatives exposure and derivatives trading in HANFA would greatly contribute to the obligation of reporting all derivative trades of supervised entities according to provisions of the national legislation (Mandatory Pension Funds Act, Voluntary Pension Funds Act, Insurance Act, Alternative Investment Funds Act and other relevant legislation) as well as relevant EU regulation applicable to the financial sector.

3. Description

3.1 Background and justification:

HANFA is a supervisory body whose scope of activities and competence cover the supervision of non-banking financial market, financial services and supervised entities providing those services. While conducting supervision HANFA should check if subjects of the supervision operate in accordance with provisions of the applicable legislation and regulations (such as regulations on risks management), as well as in accordance with its own rules and standards (e.g. rules of the trade), and in general, in the way which enables orderly functioning of the subject of the supervision and execution of the measures and activities with the goal of eliminating the ascertained illegalities and irregularities.

As the competent authority HANFA must be familiar with derivatives which its supervised entities use, able to measure exposure due to usage of derivatives able to measure fair value of every type of asset, including all types of derivatives in possession of supervised entities, according to

¹ International Bank for Reconstruction and Development and International Finance Corporation And Multilateral Investment Guarantee Agency Country Partnership Strategy for the Republic of Croatia for the fiscal period 2014 – 2017.

International Financial Reporting Standard. The main goals of the supervision are verifying the legality, appraisal of security and stability of operation of subjects of the supervision, with the purpose of protecting the interests of the participants, and the public interest, contributing to the stability of the financial system and promoting and preserving of trust in the capital market.

It is essential for HANFA to have a standardized approach regarding derivative trades which will lead to better and unifying fulfillment of its supervisory duties. HANFA's Investment and Pension Funds Division daily receives reports from supervised entities about net asset value of funds. It enables insight on a daily basis into all asset classes in fund's portfolio. Due to increase in derivatives trading in fund industry, it is necessary to adjust reporting system so HANFA as the competent authority can have better and enhanced understanding and information of all derivative trades. There is also need to upgrade the on-going monitoring and supervision system in part related to calculation of total exposure, investment limits and valuation of assets.

In this matter it is necessary to establish methodology that is, set of principles and rules for collecting the data from derivative trades which are relevant for detecting the true nature of these kind of trades. After that, with obtained knowledge of relevant data, it is needed to set up reporting process, in which HANFA will receive from supervised entities reports about status of derivative trades and derivatives exposure. The guidelines for collecting different types of data on derivatives exposure and derivatives trading as well as methodological guidelines for reporting on derivative trades, which will result from this project, are for HANFA's use only. Based on acquired knowledge and after implementation of above mentioned methodologies, HANFA will formulate and produce documentation for supervised entities where instructions and explanations will be clarified and defined.

Through the implementation of this project the reporting process related to derivatives exposure and derivatives trading in HANFA will be improved which will contribute to achievement of the above mentioned main goals of the supervision.

3.2 Linked activities:

IPA 2012 FFRAC "Improving IT infrastructure of Croatian Financial Services Supervisory Agency by implementation of business intelligence solution" started in October 2015 and is scheduled to finish in November 2016.

The purpose of this service contract is implementation of business intelligence solution through development of new software which will improve HANFA's data exchange with ESAs and increase HANFA's efficiency and capacity in conducting its supervisory tasks.

The project implementation will lead to fulfilment of the efficient and automated reporting of HANFA to ESAM, EIOPA and other national supervisory authorities. It will improve effectiveness and efficiency in monitoring of compliance of supervised entities with EU and national regulations as well as effectiveness and efficiency of risk based supervision of supervised entities, early warning system and on-going monitoring and management of systemic risks of the whole market of non-banking sector on national and EU level.

Transition Facility (Institution Building Envelope) "Integration and Improvement of Risk Based Supervision in Croatian Financial Services Supervisory Agency" (CRO RBS)

The purpose of this Twinning light project, which is currently in the preparation phase, is implementation of Risk Based Supervision (RBS) solution through development of new processes which will improve efficiency of the use of HANFA resources and increase its capacity in conducting supervisory tasks. The project will lead to improvement of effectiveness and efficiency of risk based supervision of supervised entities, early warning system and on-going monitoring and management of systemic risks of the whole market of non-banking sector on national and EU level.

as well as structured risk analysis process, consistency and transparency.

Successful implementation of Risk Based System (RBS) in HANFA is linked to the above mentioned IPA 2012 project which will introduce more efficient and robust use of data that supervised entities submit to HANFA. Automatization and improvement of data usage is crucial prerequisite for implementation of the RBS.

IPA 2012 project “Improving IT infrastructure of Croatian Financial Services Supervisory Agency by implementation of business intelligence solution” and Transition Facility project “Integration and Improvement of Risk Based Supervision in Croatian Financial Services Supervisory Agency” are not overlapping with this project.

3.3 Results:

Result 1: Recommendations for improvement of the reporting process related to derivatives exposure and derivatives trading prepared

Indicator of achievement:

- Analysis of the national reporting process related to derivatives exposure and derivatives trading conducted, and analysis report with recommendations for improvement of the reporting process prepared, taking into consideration the best practices of other competent authorities

Result 2: Methodology for data collection and data processing improved

Indicators of achievement:

- Methodological procedure for collecting data and processing different types of data on derivatives trading prepared
- Methodological procedure for collecting data and reporting on derivative trades prepared

Result 3: The improved methodology implemented through preparation of draft reports on derivatives exposure and derivatives trading

Indicators of achievement:

- All types of data and information which should be obtained in reports on derivatives exposure and derivatives trading defined and corresponding report prepared
- Draft reports on derivatives exposure and derivatives trading prepared

Result 4: Relevant regulations harmonized with the new business needs

Indicators of achievement:

- Based on the prepared recommendations for improvement of the reporting process related to derivatives exposure and derivatives trading and the developed methodology, recommendations for amendments to relevant regulations prepared in order to satisfy the new business needs of HANFA
- Harmonized regulations with the new business needs prepared

Result 5: Knowledge and analytical skills of HANFA employees on all types of derivatives and their specific features improved

Indicators of achievement:

- At least 5 workshops for at least 10 HANFA employees on all types of derivatives and their

specific features conducted in order to improve supervision of usage of derivatives through periodical reports²

- Handbook for HANFA employees on reporting system prepared

3.4 Activities:

Member State is kindly requested to develop activities in the submitted proposal which are needed in order to achieve the results stipulated in the fiche.

Minimum two visibility events will be organized in the course of the implementation of the project; Kick-off meeting at the start of the implementation and the Final meeting at the end of the implementation of the project activities.

3.5 Means/ Input from the MS Partner Administration:

MS Project Leader may participate in the project also as the short-term expert (STE) and in this case the MS Project Leader should satisfy requirements stipulated in the fiche for both the Project Leader and the relevant STE profile.

3.5.1 Profile and tasks of the Project Leader

Profile of the Project Leader

Requirements:

- University level education or equivalent professional experience of 10 years in the field of financial markets in non-banking sector
- Minimum 5 years of experience in supervision of non-banking financial institutions
- Experience in project management
- Working level of English language
- Computer literacy
- Proven contractual relation to public administration or mandated body, as defined under Twinning Manual 5.4.5

Assets:

- Experience in asset management (investment fund or pension fund industry)
- Experience in portfolio management
- Experience in reporting on derivatives exposure or derivative trades

Tasks of the Project Leader:

- Overall responsibility of the project, support and coordination of all activities in the Beneficiary country (BC) in cooperation with the BC Project Leader and experts engaged in undertaking activities
- Overall co-ordination of MS experts' work and availability
- Ensuring sound implementation of envisaged activities
- Reviewing and approving key project outputs and any revisions to the work plan according to the European Commission rules

² The training topics should tentatively include calculation of total exposure, investment limits and valuation of assets.

- Coordination and networking with relevant institutions in Croatia and in the MS
- Participation in Steering Committee meetings
- Organization of visibility events (kick-off and final events)
- Project reporting
- Ensuring backstopping and financial management of the project in the MS

3.5.2 Profile and tasks of the short-term experts

Profile of the Short-term experts

Requirements:

- University level education or equivalent professional experience of 8 years in the field of financial markets in non-banking sector
- Minimum 3 years of experience in reporting on derivatives exposure or derivative trades
- Working level of English language
- Computer literacy
- Proven contractual relation to public administration or mandated body, as defined under Twinning manual 5.4.5

Assets:

- Experience in analysis of legislation or preparation of recommendations for improvement of legislation
- Experience in development of guidelines for reporting on derivatives exposure or derivative trades
- Experience in analysis of derivatives exposure or investment limits or valuation of assets
- Experience in conducting training

Tasks of the Short-term experts:

- Close cooperation with the Croatian experts in undertaking all activities
- Providing professional advice to Croatian experts during the project implementation period
- Conducting analysis of the national reporting process related to derivatives exposure and derivatives trading and preparing corresponding report
- Preparing methodological procedure for collecting data and processing different types of data on derivatives trading
- Preparing methodological procedure for collecting data and reporting on derivative trades
- Defining all types of data and information which should be obtained in reports on derivatives exposure and derivatives trading and preparing corresponding report
- Drafting reports on derivatives exposure and derivatives trading
- Preparing recommendations for amendments to relevant regulations and harmonizing regulations with the new business needs
- Preparing handbook for HANFA employees on reporting system
- Preparing and conducting trainings

Note:

The pool of experts should include:

- At least one short-term expert who in addition to the respective profile requirements has experience in conducting trainings.

4. Institutional Framework

The main beneficiary institution of the project will be Croatian Financial Services Supervisory Agency (HANFA).

HANFA is a supervisory body whose scope of activities and competence cover the supervision of non-banking financial market, financial services and supervised entities providing those services. Article 15 of the Act on HANFA defines public authorities of HANFA, which cover regulatory and supervisory powers under acts regulating the capital market, investment and other funds, pension insurance companies, insurance and reinsurance and financial services, as well as any other act determining responsibilities of HANFA.

The fundamental objectives of HANFA are promotion and preservation of the stability of the financial system and supervision of legality of the supervised entities operations. In the achievement of its objectives, HANFA is governed by the principles of transparency with the purpose of attaining confidence among participants of the financial markets and quality reporting to consumers.

Supervision of the above-mentioned industries is one of HANFA's instruments to achieve its fundamental objectives. By carrying out its activities, HANFA ensures fair, efficient and transparent market and reduces systemic risks applicable to non-banking sector. In its daily operations, HANFA consistently applies high regulatory standards, which especially imply effective international cooperation as one of the key factors of HANFA supervisory activities.

Article 18 of the Act on HANFA stipulates that HANFA may be a member of international organizations competent for the area of the supervision of financial institutions and markets and it shall collaborate and exchange information arising from the supervision of the operations of supervised with similar foreign institutions that exercise supervision of financial institutions and markets.

As a competent authority for non-banking financial system, HANFA is a member of European Supervisory Authorities (ESAs) - European Insurance Occupational Pension Authority (EIOPA) and European Securities and Markets Authority (ESMA). Moreover, HANFA is member of European Systemic Risk Board (ESRB) which is along with ESAs, part of European System of Financial Supervision (ESFS). The structure of ESFS is based on two pillars: macro-prudential supervision by the ESRB and micro-prudential supervision by a network consisting of the ESAs and national supervisory authorities.

The main HANFA division which will benefit the most from the implementation of new reporting system related to derivatives exposure and derivatives trading is Investment and Pension Funds Division (24 employees). The organizational structure of HANFA is presented in Annex 2 of the Twinning light fiche. In total HANFA has 153 employees.

The coordination of Croatian stakeholders/experts involved in the project will be ensured by HANFA.

Two Steering Committee meetings will be held for the purpose of reviewing the progress made under the project as well as to discuss results achieved and/or problems occurred. The first Steering Committee meeting will be held during the third month of project activities implementation in order to discuss and comment the draft start-up report. The second Steering Committee meeting will be organized during the last month of the implementation period of the Action to discuss the draft final report. It should be noted that the participation of the Member State Project Leader in Steering Committees meetings has to be combined with expert missions in case the Member State Project

Leader is also a short-term expert in the twinning light project. If the Member State Project Leader is not short-term expert in the twinning light project then his visits to Croatia, (one visit every three months) as part of his overall task to ensure coordination and political steering of the project, should be organized at the same time as the two Steering Committee meetings of the project.

The exact participants of the Steering Committee meetings will be defined during the implementation of the project, but will at least include the following members:

- BC Project Leader
- MS Project Leader
- CFCA Project Manager
- MRDEUF Sector Manager

The beneficiary is committed to provide all necessary infrastructures such as office space and desktop computers with internet connection for experts, venue for holding seminars and workshops and to ensure the necessary local staff/experts inputs.

5. Budget

Improving Reporting Process related to Derivatives Exposure and Derivatives Trading in Croatian Financial Services Supervisory Agency (CRO DERIV)	Transition Facility Contribution	National Co-financing	TOTAL
Twinning light contract	90.000,00 EUR (90%)	10.000,00 EUR (10%)	100.000,00 EUR

The total amounts of the Transition Facility Contribution and National Co-financing stipulated in the above table represents the total maximum amounts and therefore, they may be reduced at the level of the Twinning light contract, while the relevant ratio (percentages) should be maintained as fixed.

The co-financing requirement foreseen under the Transition Facility will be considered fulfilled according to the provision of the relevant Financing Decision.

Interpretation costs will be reimbursed from the budget only for the purpose of workshops and seminars, up to 7% of the Contract amount can be used for translation and interpretation purposes.

Provisions for visibility costs and expenditure verification costs should be included in the budget.

6. Implementation Arrangements

6.1 Implementing Agency responsible for tendering, contracting and accounting:

Central Finance and Contracting Agency (CFCA)
 Ulica grada Vukovara 284
 10000 Zagreb, Croatia
 Mr Tomislav Petric, Director
 Phone: +385 1 604 2400
 Fax: +385 1 604 2598
 E-mail: procurement@safu.hr

Twinning Administrative Office

Central Finance and Contracting Agency
Ulica grada Vukovara 284
10000 Zagreb, Croatia
Ms Nirvana Sokolovski, Twinning NCP
Phone: +385 1 6042 400
Fax: + 385 1 6042 598
E-mail: twinning@safu.hr

6.2 Main counterpart in the BC:

Senior Programme Officer (SPO):

Mr Mario Radaković, Board Member
Croatian Financial Services Supervisory Agency
Miramarska 24b
10000 Zagreb, Croatia
Tel: +385 1 6173 200
Fax: + 385 1 4811 406
Email address: mario.radakovic@hanfa.hr

BC Project Leader:

Ms Ana Josipović, Director of Investment and Pension Funds Division
Croatian Financial Services Supervisory Agency
Miramarska 24b
10000 Zagreb, Croatia

6.3 Contracts:

It is envisaged that the Project will be implemented through one Twinning light contract, with the maximum amount of 100.000,00 EUR.

6.4 Reporting:

The Start-up Report will cover first two months of the contract and will be submitted during the third month.

The Start-up report should:

- Clearly define the aims and purpose of the aid provided by the project,
- Give detailed description of the content of particular parts of the project,
- Work out in detail the activities carried out and the results achieved,
- Work out in detail all modifications agreed with the beneficiary institution,
- Review difficulties met during the implementation of the project and measures that were undertaken for their removal,
- Provide all findings obtained in the meanwhile and preliminary conclusions, and
- Contain a general plan of activities for the implementation of the remained duration of the project.

The Final Report shall be submitted within three months upon the completion of the project activities and in any case within the legal duration of the project, and it should contain the following:

- Complete review of all activities carried out by MS experts during the implementation of the project,

- Achieved progress concerning each activity,
- Summary of all project results, with particular emphasis on mandatory results,
- Estimation of the project impact compared with the project aims and measures of the achieved progress,
- Identification of all important problems met during the implementation of the contract and solutions that have been applied,
- Lessons drawn from the project, and
- Recommendations for further steps in future projects

The reports must be endorsed and countersigned by the beneficiary, who may make additional comments.

Reports shall be submitted to the Croatian Financial Services Supervisory Agency, the Central Finance and Contracting Agency, the Ministry of Regional Development and EU Funds and the concerned service of the European Commission in a form of 3 hard copies and an electronic version. All reports should be written in English.

6.5 Language:

Working language of the project will be English.

7. Implementation Schedule (indicative)

7.1 Launching of the call for proposals: 2Q 2016

7.2 Start of project activities: 3Q 2016

7.3 Project completion: 1Q 2017

7.4 Duration of the execution period (number of months) - 9 months; the execution period will end 3 months after the implementation period of the Action (work plan) which will take 6 months.

8. Sustainability

With development of the global markets, use of many new financial products, as well as derivatives, is increasing. In the Republic of Croatia, investment and pension funds are gradually increasing their exposure to derivatives. Generally, derivatives are characterized by less transparency compared to other financial instruments, because mostly they are concluded under conditions agreed by the contracting out of the market, so the data is available only to the parties involved in the transaction. In terms of the financial crisis, it was confirmed that such characteristics and, in particular OTC derivatives contracts, increase instability on financial markets.

After successful implementation of the project, sustainability will be achieved by continuous implementation of the results of the project. Knowledge and skills which will be obtained through this project are essential for further development and upgrade of the on-going monitoring and supervision of non-banking sector on national level. Also, in order to foster financial stability it is imperative to employ a process for accurate and independent assessment of the valuation models, amount and type of derivatives and in this way improve efficiency and capacity of supervisory powers.

The implementation of this project will contribute to a better methodology of supervision in the area of derivatives trading and will also provide new knowledge and the best know-how practice

from an EU Member State. Furthermore, the project implementation will strengthen the role of HANFA as the regulatory authority whose main goal is to ensure financial stability in the non-banking financial sector.

9. Crosscutting issues

Based on fundamental principles of promotion of equality and combating discrimination, participation in the project shall be guaranteed based on equal access regardless of sex, racial or ethnic origin, religion, belief, disability age or sexual orientation. The activities of the objective have no negative impact on the environment.

10. Conditionality and sequencing

Not applicable.

ANNEXES TO PROJECT FICHE

1. Logical framework matrix in standard format
2. HANFA's organisational chart
3. List of relevant legislation

Annex 1. Logical framework matrix in standard format

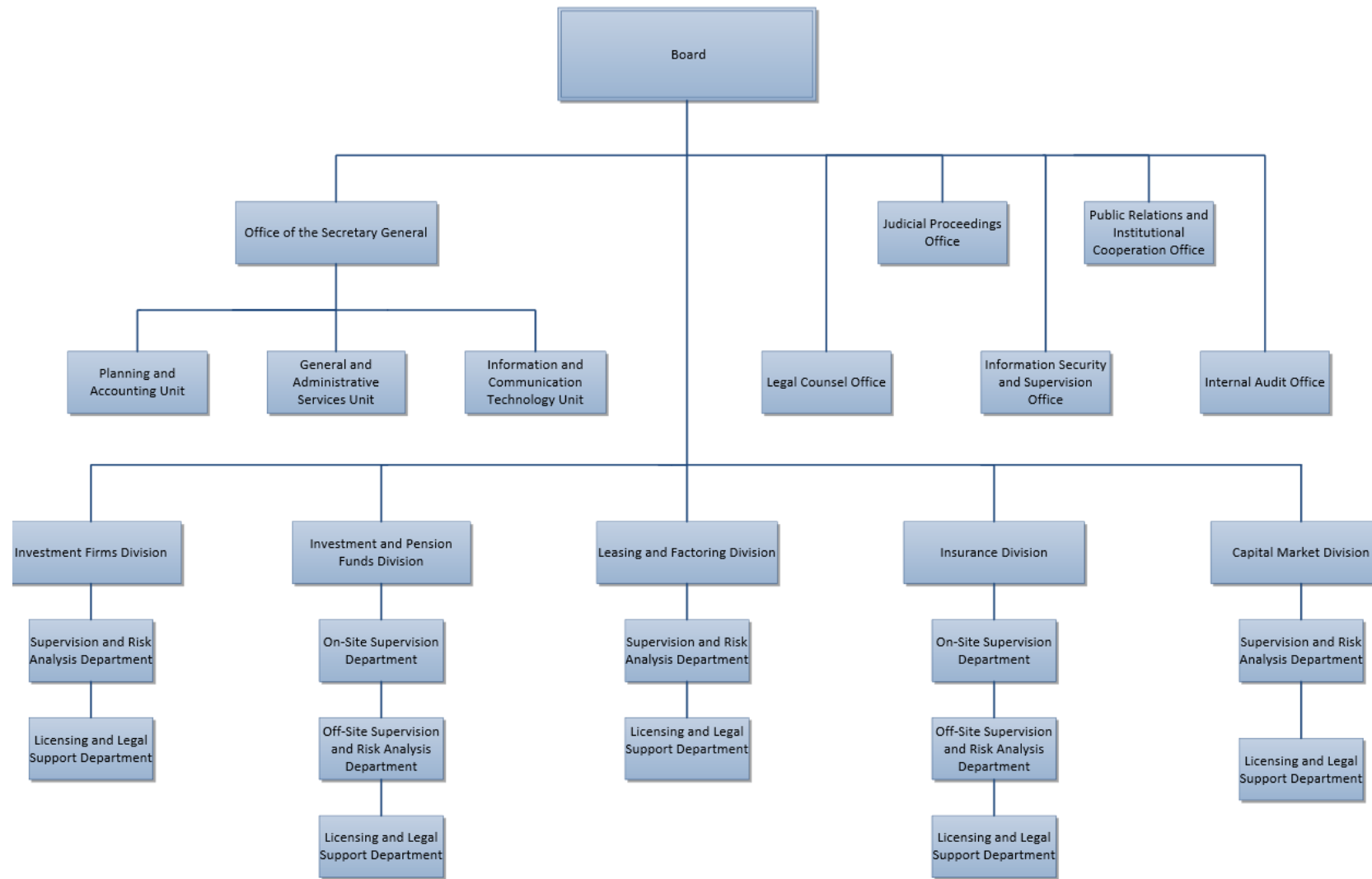
Improving Reporting Process related to Derivatives Exposure and Derivatives Trading in Croatian Financial Services Supervisory Agency (CRO DERIV)		Programme name and number: Transition Facility IPA/2013/24986 (Annex of C (2013) 8057 final); Institution Building Envelope	
Croatian Financial Services Supervisory Agency (HANFA)		Contracting period expires: 3 years from the day on which the Commission notifies the Republic of Croatia that all of its internal procedures necessary for the adoption of this Decision have been fulfilled	Disbursement period expires: 4 years following the expiration of the contracting deadline
		Total budget: 100.000,00 EUR	Transition Facility financing: 90.000,00 EUR (90%) National co-financing: 10.000,00 EUR (10%) ³
Overall objective	Objectively Verifiable Indicators	Sources of Verification	
The overall objective is strengthening of the supervisory and regulatory role of the Croatian Financial Services Supervisory Agency (HANFA) and ensuring financial stability in non-banking financial sector. More specifically, the project implementation will lead to fulfilment of the following specific objectives: - Upgrading the on-going monitoring and supervision of supervised entities regarding the calculation of total as well as economic exposure, investment limits and valuation of assets; - Improving effectiveness and efficiency in monitoring of risks associated with derivatives	Improved control measures in supervision which will reduce associated risks with derivative trading Upgraded on-going monitoring and supervision of supervised entities regarding the calculation of total as well as economic exposure, investment limits and valuation of assets	Relevant EC reports Relevant national reports and statistics	

³ The total amounts of the Transition Facility Contribution and National Co-financing stipulated in the above table represents the total maximum amounts and therefore, they may be reduced at the level of the Twinning light contract, while the relevant ratio (percentages) should be maintained as fixed. The co-financing requirement foreseen under the Transition Facility will be considered fulfilled according to the provision of the relevant Financing Decision.

trade of supervised entities in line with the EU and national regulations; - Ensuring efficient reporting of HANFA to the European Securities and Markets Authority (ESMA), European Insurance and Occupational Pensions Authority (EIOPA) and relevant national supervisory authorities; - Improving efficiency of on-going monitoring and management of systemic risks of the whole market of non-banking sector on the national level.			
Project purpose	Objectively Verifiable Indicators	Sources of Verification	Assumptions
The project purpose is improving reporting process related to derivatives exposure and derivatives trading in HANFA which will enable HANFA for more effective monitoring of the underlying risks, the quantitative limits and the methods which are chosen in order to estimate the risks associated with transactions in derivative instruments.	System for reporting of derivative exposure and derivatives trade improved Harmonized regulations with the new business needs prepared HANFA employees trained and their capacities for reporting related to derivatives exposure and derivatives trading enhanced	Start-up and Final Report produced under the project Documentation produced under the project (analysis reports, recommendations, handbook, etc.) Methodological procedure Draft supervision reports List of participants on trainings	Staff of the project beneficiary is fully available for project implementation and participation at trainings Project documentation prepared on time Adequate human and financial resources Good cooperation between MS and BC experts
Results	Objectively Verifiable Indicators	Sources of Verification	Assumptions
Result 1: Recommendations for improvement of the reporting process related to derivatives exposure and derivatives trading prepared	• Analysis of the national reporting process related to derivatives exposure and derivatives trading conducted, and analysis report with recommendations for improvement of the reporting process prepared, taking into consideration the best practices of other competent authorities	Start-up and Final Report produced under the project Documentation produced under the project (analysis reports, recommendations, handbook, etc.) Methodological procedure Draft supervision reports List of participants on trainings	Staff of the project beneficiary is fully available for project implementation and participation at trainings Project documentation prepared on time Adequate human and financial resources
Result 2: Methodology for data collection and data processing improved	• Methodological procedure for collecting data and processing different types of data on		

<p>Result 3: The improved methodology implemented through preparation of draft reports on derivatives exposure and derivatives trading</p> <p>Result 4: Relevant regulations harmonized with the new business needs</p> <p>Result 5: Knowledge and analytical skills of HANFA employees on all types of derivatives and their specific features improved</p>	<p>derivatives trading prepared</p> <ul style="list-style-type: none"> • Methodological procedure for collecting data and reporting on derivative trades prepared • All types of data and information which should be obtained in reports on derivatives exposure and derivatives trading defined and corresponding report prepared • Draft reports on derivatives exposure and derivatives trading prepared • Based on the prepared recommendations for improvement of the reporting process related to derivatives exposure and derivatives trading and the developed methodology, recommendations for amendments to relevant regulations prepared in order to satisfy the new business needs of HANFA • Harmonized regulations with the new business needs prepared • At least 5 workshops for at least 10 HANFA employees on all types of derivatives and their specific features conducted in order to improve supervision of usage of derivatives through periodical reports • Handbook for HANFA employees on reporting system prepared 		Good cooperation between MS and BC experts
Activities	Means	Specification of costs	Assumptions
Activities to be implemented correspond to the activities developed in the selected MS proposal	Analyses, consultations, discussions, trainings, workshops, preparation of documentation	Twinning light project 100.000,00 EUR	In line with the assumption specified for results
			Preconditions: N/A

Annex 2. HANFA's organisational chart



Annex 3. List of relevant legislation

Relevant national legislation

- Article 51 (10) of Mandatory Pension Funds Act (Official Gazette 19/14)
- Article 58 (11) of Voluntary Pension Funds Act (Official Gazette 19/14)
- Article 118 of Insurance Act (Official Gazette 30/15)
- Article 89 of Alternative Investment funds Act (Official Gazette 16/13 and 143/13)
- Article 29 of Ordinance on organizational requirements for UCITS management companies (Official Gazette 85/13, 31/14 and 26/15).
- Mandatory Pension Funds Act (Official Gazette 19/14) and Article 58 (11) of Voluntary Pension Funds Act (Official Gazette 19/14).
- Insurance Act (Official Gazette 151/05, 87/08, 82/09, 54/13 and 94/14)
- The Law on the Implementation of Regulation (EU) no. 648/2012 of the European Parliament and the Council of 4 July 2012 on OTC derivatives, central counterparty and trade repositories (Official Gazette No. 54/13)

HANFA's powers and duties while conducting supervision are prescribed with several acts other than Act on the Croatian Financial Services Supervisory Agency (Official Gazette 140/05 and 12/12):

- Act on Open-Ended Investment Funds with a Public Offering (Official Gazette 16/13 and 113/14) Articles from 323 to 364,
- Alternative Investment funds Act (Official Gazette 16/13 and 143/13) Articles from 269 to 308,
- Insurance Act (Official Gazette 30/15) Articles from 134 to 162,
- Leasing Act (Official Gazette 141/13) Articles from 77 to 105,
- Capital Markets Act (Official Gazette 88/08, 146/08, 74/09, 54/13, 159/13, 18/15 and 110/15) Articles from 541 to 554,
- Mandatory Pension funds Act (Official Gazette 19/14 and 93/15) Articles from 196 to 226 and
- Voluntary Pension funds Act (Official Gazette 19/14) Articles from 273 to 307.

Relevant EU legislation

- Regulation (EU) No. 1094/2010⁴ and Regulation (EU) No. 1095/2010⁵
- Omnibus I Directive No. 78/2010⁶
- Communication for the spring European Council of 4 March 2009, entitled 'Driving European Recovery'⁷
- Commission Communication of 3 July 2009 entitled 'Ensuring efficient, safe and sound derivatives markets'⁸
- Commission Communication of 20 October 2009 entitled 'Ensuring efficient, safe and sound derivative markets: Future policy actions'⁹

⁴ <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32010R1094&from=EN>

⁵ <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32010R1095&from=HR>

⁶ <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32010L0078&from=HR>

⁷ <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2009:0114:FIN:EN:PDF>

⁸ http://ec.europa.eu/internal_market/financial-markets/docs/derivatives/communication_en.pdf

⁹ http://ec.europa.eu/internal_market/financial-markets/docs/derivatives/20091020_563_en.pdf

- Commission Regulation (EC) No 1126/2008 of 3 November 2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council¹⁰
- Directive 2009/65/EC¹¹
- Article 24 (1) and (2) of the Directive 2011/61/EU¹²
- Commission Delegated Regulation (EU) 231/2013¹³
- Solvency II Directive¹⁴
- Regulation (EU) No. 648/2012 of the European Parliament and the Council of 4 July 2012 on Over-the-Counter (OTC) derivatives, central counterparties and trade repositories¹⁵ (hereinafter: EMIR)

¹⁰ <http://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:02008R1126-20140101&from=EN>

¹¹ <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2009:302:0032:0096:en:PDF>

¹² <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2011:174:0001:0073:EN:PDF>

¹³ <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32013R0231&from=EN>

¹⁴ http://ec.europa.eu/finance/insurance/solvency/solvency2/index_en.htm

¹⁵ <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2012:201:0001:0059:en:PDF>