

# 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 05 16 TWL R
- 1.4. Title: Integration and Improvement of Risk Based Supervision in Croatian Financial Services Supervisory Agency (CRO RBS)
- 1.5. Sector: Public Finance
- 1.6. Beneficiary country: 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:

- Improving effectiveness and efficiency of the 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;
- Structured risk analysis process;
- Improving consistency and transparency in performing supervisory tasks.

### 2.2 Project purpose:

The project purpose is implementation of the risk based supervision (RBS) solution through development of new processes, which will improve efficiency of HANFA's use of resources and increase its capacity in conducting supervisory tasks.

### 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. This project will contribute to successful building and strengthening institutional capacity of HANFA as a supervisory body on Croatian financial market.

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.

Through this project new processes will be developed, which will improve efficiency of HANFA's use of resources and increase its capacity in conducting supervisory tasks.

### **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.

Supervisory activities should aim to identify the risks and problems that supervised entities are exposed to. By using risk based supervision HANFA will identify all relevant risks and take all possible actions to keep these risks at appropriate level and to prevent materialization of risks. To achieve this aim HANFA must adjust its supervisory procedures, methodologies and tools. Further development of risk based supervision in HANFA is essential for overall enhancement of supervisory process, efficiency of supervision and supervisory actions.

Risk based supervision is a supervisory approach that has either been implemented, or is in the process of being implemented, by many supervisory authorities in the EU. Supervision of financial system is established within the European System of Financial Supervision (ESFS) and HANFA is as competent authority for Croatian non-banking financial system, a member of the European Insurance and Occupational Pensions Authority (EIOPA), the European Securities and Markets Authority (ESMA) and the European Systemic Risk Board (ESRB).

Due to the need for improvement of risk management and supervision process within the EU financial system, the regulatory bodies need to review the legislation and introduce the new risk based supervision approaches.

Solvency 2 Directive (2009/138/EC) states that supervision shall be based on a prospective and risk based approach and that it shall include the verification on a continuous basis of the proper operation of the insurance or reinsurance business and of the compliance with supervisory provisions by insurance and reinsurance undertakings. It also states that Member States shall ensure that in the exercise of their duties supervisory authorities have regard to the convergence in respect of supervisory tools and supervisory practices in the application of the laws, regulations and administrative requirements adopted pursuant to this Directive.

Regarding banking sector, risk based supervision concepts are embedded in the Basel Core principles for effective banking supervision and are part of the International Monetary Fund (IMF) and World Bank's Financial Sector Assessment Programs (FSAPs).

EIOPA's Supervisory Oversight Team visited HANFA on 17 and 18 October 2014. One of the major observations outlined was importance of prioritizing the finalization of the risk assessment framework.

ESMA introduced changes in the risk based supervision approaches by the Committee of European Securities Regulators (CESR) guidelines (CESR/10-673, CESR/10-788). In one of reviews, ESMA found that national supervisors use a variety of different risk based supervisory approaches resulting in variations regarding: the type and frequency of periodic reporting by funds, the parameters triggering alerts to identify the risks and prioritise actions, the level of reliance on external auditors and depositories in carrying out the monitoring.

In addition, International Organisation of Pension Supervisors (IOPS) also recognized risk based supervision as preferred tool of supervision which focuses on the identification of potential risks faced by pension plans or funds and the assessment of the financial and operational factors in place to minimize and mitigate those risks. Aim is to direct resources of supervisory authority towards the issues and entities which pose the greatest threat.

The main indicated goals of the supervision are verifying the legality, appraisal of security and stability of operation of supervision subjects, for 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. This Twinning light project is expected to meet these goals by implementing activities which will define framework for risk based supervision and establish methodology for data processing and risk assessment. Moreover, risk based supervision by usage of Business Intelligence (BI) infrastructure will be introduced by defining relevant data in data warehouse which can be used in risk based supervision process. Finally, the project is expected to increase skills and knowledge of the HANFA employees through study visits and workshops.

Standardized and harmonized approach of risk based supervision will lead to better and unifying fulfilment of HANFA's supervisory duties. It would enable more effective allocation of HANFA's resources as well as monitoring risks that could emerge in the supervised industry. It will also be possible to reallocate greater part of HANFA's staff working time to identifying and analysing emerging risks and industry practice and trends as well as allocating valuable resources to those areas that need special attention and supervision. HANFA would take a more proactive and standardized approach to the way it supervises all of its supervised entities.

### 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 ESMA, 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. Successful implementation of RBS in HANFA is linked to IPA 2012 project in a way that when IPA BI solution is in place it will simplify creation of risk based supervisory reports. IPA 2012 project will introduce more efficient and robust use of data that supervised entities submit to the HANFA.

## **Transition Facility (Institution Building Envelope) “Improving Reporting Process related to Derivatives Exposure and Derivatives Trading in Croatian Financial Services Supervisory Agency” (CRO DERIV)**

The purpose of this Twinning light project (HR 14 IPA FI 01 16 TWL), which is envisaged to start with implementation in 3<sup>rd</sup> quarter 2016, 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. Project IPA 2012 FFRAC “Improving IT infrastructure of Croatian Financial Services Supervisory Agency by implementation of business intelligence solution” and Project Transition Facility (Institution Building Envelope) “Improving Reporting Process related to Derivatives Exposure and Derivatives Trading in Croatian Financial Services Supervisory Agency” (CRO DERIV) do not have overlapping activities with this project.

### 3.3 Results:

#### **Result 1: Framework for improved risk based supervision defined**

Indicators of achievement:

- Gap analysis of HANFA’s risk based supervision model taking into account risk based supervision standards and characteristics of Croatian financial market conducted and analysis report prepared
- Framework for the improved risk based supervision defined within corresponding report

#### **Result 2: Methodology for data processing and risk assessment established**

Indicators of achievement:

- Specific risks relevant for conducting supervision of the overall non-banking financial system analysed (as well as other relevant information for risk assessment of supervised entity) and analysis report with the list of all relevant risks prepared<sup>1</sup>
- Risk assessment methodology, data processing methodology and procedures to assess supervised entity’s overall risk rating on grounds on both qualitative and quantitative information prepared
- Type of information to be collected from the supervised entities in line with the methodology for data processing and risk management defined
- Guidelines, including technical and end-user documentation<sup>2</sup>, prepared and translated to Croatian language

#### **Result 3: Risk based supervision by usage of Business Intelligence (BI) infrastructure introduced by defining relevant data in data warehouse (DWH) which can be used in risk**

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<sup>1</sup> The activity is envisaged to include describing and classifying risks and preparing criteria for risk rating and weights, including risk matrix for all relevant risk categories.

<sup>2</sup> The activity is envisaged to include preparation of Guidelines for risk based supervision on site interviews, Set of comprehensive guidelines, questionnaire and written procedures to assist supervisors in conducting reviews of supervised entities and Guidelines for supervised entities.

## **based supervision process**

Indicators of achievement:

- List of relevant data in DWH which can be used through risk based supervision process defined and recommendations for appropriate usage prepared in order to introduce risk based supervision

### **Result 4: Recommendations for changes of the national regulations on implementation of the risk based supervision and set of reports and supervisory response parameters that will be used in risk based supervision process prepared**

Indicators of achievement:

- Analysis of the national regulations related to risk based supervision conducted and analysis report with recommendations for changes of the national regulations prepared
- Set of reports and supervisory response parameters including recommendations that will be used for internal HANFA reporting about results of conducted risk based supervision prepared

### **Result 5: Capacity of HANFA employees in the area of risk based supervision increased**

Indicators of achievement:

- Study visit (5 HANFA employees, 5 working days) in order to gain comprehensive overview of risk based supervision of a Member State organized and conducted
- At least 5 workshops<sup>3</sup> on risk based supervision for minimum 20 HANFA employees organized and conducted

#### 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

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<sup>3</sup> It is envisaged that the activity will cover topics of both on on-site and off-site risk based supervision, including simulation of on-site interviews.

## **Profile of the Project Leader**

### Requirements:

- University level education or equivalent professional experience of 10 years in the field of financial market
- Minimum of 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 introducing risk based supervision
- Experience in performing risk based supervision
- Experience in the field supervision of capital markets
- Experience in the field of asset management supervision
- Experience in the field of insurance supervision
- Experience in the field of macroprudential supervision
- Experience in the field of cross sectorial risk analysis

### Tasks of the Project Leader:

- Overall responsibility of the project, support and coordination of all activities in the Beneficiary Country in cooperation with the BC Project Leader and experts engaged in undertaking activities
- Overall coordination 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
- Coordination and networking with relevant institutions in Croatia and in the MS
- Organisation of visibility events (kick-off and final events)
- Participation in Steering Committee meetings
- Organisation of study visits
- 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 expert**

#### Requirements:

- University level education or equivalent professional experience of 8 years in the field of financial markets
- Minimum 3 years of experience in supervision of non-banking financial institutions
- Experience in introducing risk based supervision model and/or in performing risk based supervision
- 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 conducting training and developing procedures
- Experience in securities and/or capital markets supervision
- Experience in asset management supervision
- Experience in insurance supervision
- Experience in macroprudential supervision
- Experience in cross sectoral risk analysis and/or in risk transfer analysis

#### Tasks of the Short-term expert:

- Close cooperation with the Croatian experts in undertaking all activities
- Providing professional advice to Croatian experts during the project implementation period
- Conducting gap analysis of risk based supervision model and defining framework for the improved risk based supervision model
- Conducting analysis of relevant risks and analysis report prepared
- Preparing risk assessment methodology
- Defining type of information to be collected from the supervised entities
- Preparing guidelines
- Defining list of relevant data in data warehouse (DWH) and preparing recommendations for its usage
- Introducing risk based supervision by usage of Business Intelligence (BI) infrastructure by defining relevant data in DWH which can be used in RBS process
- Preparing set of reports and supervisory response parameters
- Conducting analysis of the national regulations related to risk based supervision and preparing analysis report with recommendations for changes of the national regulations
- Organizing and conducting workshops

## 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.

HANFA has 154 employees and consists of five main Divisions - Investment Firms Division, Investment and Pension Funds Division, Leasing and Factoring Division, Insurance Division and Capital Market Division (please refer to Annex 2 of the Twinning light fiche). All of them will benefit directly from improved and standardized approach of risk based supervision.

Results of this project will not affect HANFA's internal organization or the institutional set-up for supervision of non-banking financial institutions established in Croatia. 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 organised 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 organised 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 infrastructure 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

Integration and Improvement of Risk Based Supervision in Croatian Financial Services Supervisory Agency (CRO RBS)	Transition Facility Contribution	National Co-financing	TOTAL
Twinning light contract	171.000 EUR (90%)	19.000 EUR (10%)	190.000,00 EUR

*The total amounts of the Transition Facility Contribution and National Co-financing stipulated in the above table represent 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 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 6042 400

Fax: +385 1 6042 598

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) and BC Project Leader

Mr. Mario Radaković, Board Member

Croatian Financial Services Supervisory Agency (HANFA)

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 190.000,00 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 Croatian Financial Services Supervisory Agency, the Central Finance and Contracting Agency, 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: 3Q 2016

7.2 Start of project activities: 4Q 2016

7.3 Project completion: 2Q 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**

After successful implementation of the project, sustainability will be achieved by continuous implementation of the results. Gained knowledge and skills will contribute to more efficient conducting of risk based supervision. It is envisaged that risk based supervision principles will be integrated in HANFA's policies and procedures.

The Twinning light project implementation will contribute to better fulfilment of HANFA's fundamental objectives – promotion and preservation of the stability of the financial system and supervision of the supervised entities operations. It will also contribute to improving effectiveness and efficiency of the 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 and to improvement of consistency and transparency in performing supervisory tasks.

Furthermore, the Project implementation will strengthen the risk based supervisory framework, increase HANFA's capacity in conducting supervisory tasks and improve HANFA's supervisory methodology, processing and assessment.

## **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

Integration and Improvement of Risk Based Supervision in Croatian Financial Services Supervisory Agency (CRO RBS)		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: 190.000,00 EUR	Transition Facility financing: 171.000 EUR (90%)  National co-financing: 19.000 EUR (10%) <sup>4</sup>
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: - Improving effectiveness and efficiency of the risk based supervision of supervised entities, early warning system and on-going monitoring and management of systemic risks of the	Effectiveness and efficiency of the 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 improved  Consistency and transparency in performing supervisory tasks improved	Relevant EC reports  Relevant national reports and statistics	

<sup>4</sup> The total amounts of the Transition Facility Contribution and National Co-financing stipulated in the above table represent 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.

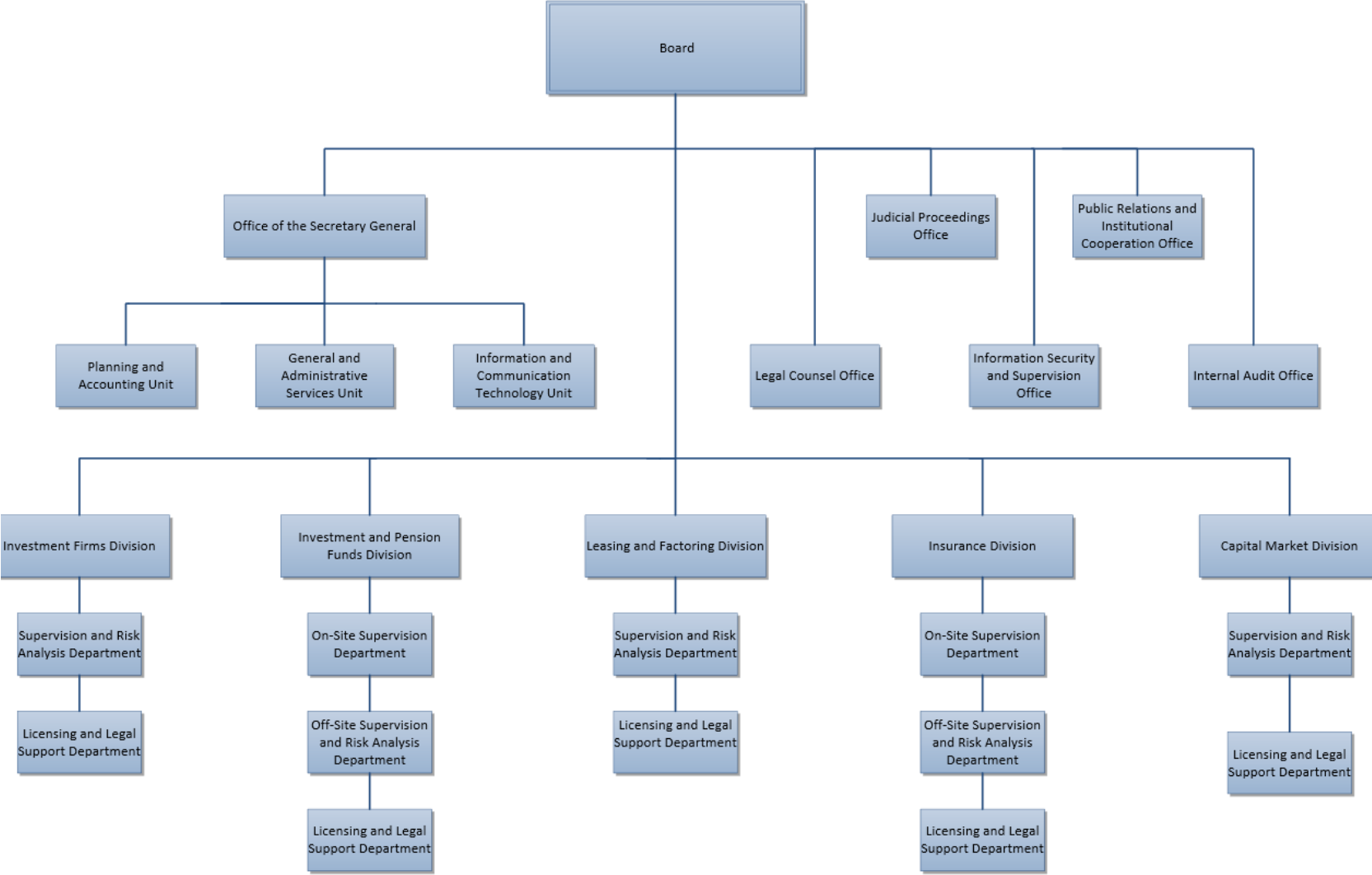
<p>whole market of non-banking sector on national and EU level;</p> <ul style="list-style-type: none"> <li>- Structured risk analysis process;</li> <li>- Improving consistency and transparency in performing supervisory tasks.</li> </ul>			
Project purpose	Objectively Verifiable Indicators	Sources of Verification	Assumptions
<p>The project purpose is implementation of the risk based supervision (RBS) solution through development of new processes, which will improve efficiency of HANFA's use of resources and increase its capacity in conducting supervisory tasks.</p>	<p>Improved risk based supervision framework as a main HANFA's supervisory tool</p> <p>Methodology for data processing and risk assessment and established</p> <p>Capacity of HANFA's employees increased in the area of risk based supervision</p>	<p>Start-up and Final Report produced under the project</p> <p>Documentation produced under the project: Methodology, guidelines, analyses, reports, etc.</p> <p>List of participants on workshops and study visit</p> <p>Study visit report</p>	<p>Full commitment of the parties involved</p> <p>Good communication and cooperation between all relevant participants</p> <p>Staff of the project beneficiary is fully available for project implementation and participation in training</p> <p>Adequate human and financial resources</p>
Results	Objectively Verifiable Indicators	Sources of Verification	Assumptions
<p><b>Result 1: Framework for improved risk based supervision defined</b></p> <p><b>Result 2: Methodology for data processing and risk assessment established</b></p>	<ul style="list-style-type: none"> <li>• Gap analysis of HANFA's risk based supervision model taking into account risk based supervision standards and characteristics of Croatian financial market conducted and analysis report prepared</li> <li>• Framework for the improved risk based supervision defined within corresponding report</li> <li>• Specific risks relevant for conducting supervision of the overall non-banking financial system analysed (as well as other relevant information for risk assessment of supervised entity) and analysis report with the list of all relevant risks prepared</li> <li>• Risk assessment methodology, data processing methodology and procedures to assess supervised entity's overall risk rating on grounds on both qualitative and</li> </ul>	<p>Start-up and Final Report produced under the project</p> <p>Documentation produced under the project: Methodology, guidelines, analyses, reports, etc.</p> <p>List of participants on workshops and study visit</p> <p>Study visit report</p>	<p>Full commitment of the parties involved</p> <p>Good communication and cooperation between all relevant participants</p> <p>Staff of the project beneficiary is fully available for project implementation and participation in training</p> <p>Adequate human and financial resources</p>

<p><b>Result 3: Risk based supervision by usage of Business Intelligence (BI) infrastructure introduced by defining relevant data in data warehouse (DWH) which can be used in risk based supervision process</b></p> <p><b>Result 4: Recommendations for changes of the national regulations on implementation of the risk based supervision and set of reports and supervisory response parameters that will be used in risk based supervision process prepared</b></p> <p><b>Result 5: Capacity of HANFA employees in the area of risk based supervision increased</b></p>	<p>quantitative information prepared</p> <ul style="list-style-type: none"> <li>• Type of information to be collected from the supervised entities in line with the methodology for data processing and risk management defined</li> <li>• Guidelines, including technical and end-user documentation, prepared and translated to Croatian language</li> <li>• List of relevant data in DWH which can be used through risk based supervision process defined and recommendations for appropriate usage prepared in order to introduce risk based supervision</li> <li>• Analysis of the national regulations related to risk based supervision conducted and analysis report with recommendations for changes of the national regulations prepared</li> <li>• Set of reports and supervisory response parameters including recommendations that will be used for internal HANFA reporting about results of conducted risk based supervision prepared</li> <li>• Study visit (5 HANFA employees, 5 working days) in order to gain comprehensive overview of risk based supervision of a Member State organized and conducted</li> <li>• At least 5 workshops on risk based supervision for minimum 20 HANFA employees organized and conducted</li> </ul>		
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Activities	Means	Specification of costs	Assumptions
Activities to be implemented correspond to the activities developed in the selected MS proposal	Consultations, analysis, preparation of documentation, presentation, seminars, workshops, practical assignments	Twinning light project 190.000,00 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. 1094/2010<sup>5</sup> and Regulation (EU) No. 1095/2010<sup>6</sup>

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<sup>5</sup> <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32010R1094&from=EN>

<sup>6</sup> <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32010R1095&from=HR>

- Omnibus I Directive No. 78/2010<sup>7</sup>
- Communication for the spring European Council of 4 March 2009, entitled ‘Driving European Recovery’<sup>8</sup>
- Commission Communication of 3 July 2009 entitled ‘Ensuring efficient, safe and sound derivatives markets’<sup>9</sup>
- Commission Communication of 20 October 2009 entitled ‘Ensuring efficient, safe and sound derivative markets: Future policy actions’<sup>10</sup>
- 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 Council<sup>11</sup>
- Directive 2009/65/EC<sup>12</sup>
- Article 24 (1) and (2) of the Directive 2011/61/EU<sup>13</sup>
- Commission Delegated Regulation (EU) 231/2013<sup>14</sup>
- Solvency II Directive<sup>15</sup>
- 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 repositories<sup>16</sup> (hereinafter: EMIR)

<sup>7</sup> <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32010L0078&from=HR>

<sup>8</sup> <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2009:0114:FIN:EN:PDF>

<sup>9</sup> [http://ec.europa.eu/internal\\_market/financial-markets/docs/derivatives/communication\\_en.pdf](http://ec.europa.eu/internal_market/financial-markets/docs/derivatives/communication_en.pdf)

<sup>10</sup> [http://ec.europa.eu/internal\\_market/financial-markets/docs/derivatives/20091020\\_563\\_en.pdf](http://ec.europa.eu/internal_market/financial-markets/docs/derivatives/20091020_563_en.pdf)

<sup>11</sup> <http://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:02008R1126-20140101&from=EN>

<sup>12</sup> <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2009:302:0032:0096:en:PDF>

<sup>13</sup> <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2011:174:0001:0073:EN:PDF>

<sup>14</sup> <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32013R0231&from=EN>

<sup>15</sup> [http://ec.europa.eu/finance/insurance/solvency/solvency2/index\\_en.htm](http://ec.europa.eu/finance/insurance/solvency/solvency2/index_en.htm)

<sup>16</sup> <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2012:201:0001:0059:en:PDF>