

## ANNEX C1

### STANDARD TWINNING PROJECT FICHE

#### 1. Basic Information

- 1.1 Publication notice reference number: EuropeAid/ 138-771/IH/ACT/ME
- 1.2 Programme: Annual Action Programme for Montenegro (IPA/2014/032-022.1/ME) under indirect management mode with ex ante control.
- 1.3 Twinning Number: MN 14 IPA FI 02 17 R
- 1.4 Title: Support to Regulation of Financial Services
- 1.5 Sector: Finance, Internal market and economic criteria (Competitiveness and Innovation)
- 1.6 Beneficiary country: Montenegro

#### 2. Objectives

##### 2.1 Overall Objective(s):

The overall objective of the Project is to ensure more stable, sustainable and efficient financial services in line with the EU best practice in order to support the private sector development and enhance the competitiveness of the economy.

##### 2.2 Project purpose:

The purpose of this Project is to further align the legislation for financial services with *Union acquis* and strengthen the regulatory and supervisory capacities.

##### 2.3 Contribution to National Development Plan/Cooperation agreement/Association Agreement/Action Plan

The Project will contribute to the fulfilment of the obligations from the Stabilisation and Association Agreement (SAA) signed on 15 October 2007 and entered into force on 1 May 2010. Activities envisaged by this Project are focused on meeting the criteria for full membership in the EU and correlate with the priorities defined in the Montenegrin Negotiation Position for Chapter 9 – Financial Services. This Project will contribute to the implementation of activities envisaged by the Montenegrin *Programme for Accession 2014 – 2020*, particularly Chapter 9 – Financial Services.

The sector policy objectives are coherent with national development objectives defined in the national document *Montenegro Development Directions 2013-2016*. Directions recognized improvement of financial market efficiency as one of the necessities for the development of Montenegro.

*South East Europe Strategy 2020*, Dimension K - Competitiveness, envisages undertaking joint regional activities to support greater access to finance and capital market integration (by implementing regional financial instruments (European Fund for Southeast Europe, Enterprise Development & Innovation Facility), facilitating regional events for early stage ventures; initiating regional investment readiness actions for capacity building; initiating regional capital market integration).

### **3. Description**

#### **3.1 Background and justification:**

This project is intended to provide crucial support for the further alignment of the legislation in the area of financial services in Montenegro with the *Union acquis*, with strengthening of the regulatory and supervisory capacities, which is defined as a specific objective. This could be verified mainly through the fulfilment of the requirements from the negotiation of Chapter 9 – Financial Services in order to strengthen administrative capacities of regulatory and supervisory authorities, improve regulatory framework and harmonised legislation, thus to continue further alignment of the Montenegrin legislation with the *Union acquis* in banking, insurance and capital market sector.

Financial services reform strongly depends on the harmonisation and integration of the Montenegrin financial market with the European system. Montenegrin financial sector requires further strengthening of the regulatory framework through improvement of the current and adoption of new legal regulations, in accordance with relevant international practice and regulatory standards of the EU, as a prerequisite for the financial stability. In relation to this issue, substantial progress is needed for the reinforcement of the implementation mechanisms and capacity building, which is necessary for the strengthening of the institutional framework.

Key assumptions are related to the full commitment and support to the Project by the Central Bank of Montenegro (CBM), Insurance Supervision Agency (ISA) and Securities and Exchange Commission of Montenegro (SECMN) and the Government, as well as maintaining adequate key staff with appropriate skills in all the beneficiary institutions. Coordination of the efforts among all institutions should be ensured as well.

#### **3.2 Linked activities (*other international and national initiatives*):**

Previous EU funded assistance included IPA 2008 Twinning project *Strengthening the Regulatory and Supervisory Capacity of the Financial Regulators*, which was aimed at improving efficiency and effectiveness of the institutional and regulatory capacities of the

financial sector regulators in Montenegro in order to supervise financial market and institutions in line with the *Union acquis*. The direct result of this assistance and cooperation is a great advancement in the harmonisation of the relevant Montenegrin legislation with the *Union acquis* in the financial sector, preparing 8 new laws and more than 10 new regulations transposing 15 core EU directives.

The Central Bank of Montenegro participated successfully in the IPA-funded regional programme "Strengthening Macro and Micro-Prudential Supervision in EU Candidates and Potential Candidates" ("Crisis Response Package"), which was coordinated by the European Central Bank (ECB) and implemented between 2010 and 2012.

Three actions from IPA 2012 Reserve list were implemented:

1. Technical assistance to the Insurance Supervision Agency of Montenegro (ISA) for further alignment of relevant legislation with *Union acquis* and implementation of EU standards and the best practices in insurance market supervision.
2. Technical cooperation programme with the Central Bank of Montenegro (CBM) in preparation for its accession to the European System of Central Banks (ESCB), implemented by the European Central Bank (ECB) together with ten partner national banks of the Eurosystem in September 2014. The result of the project was the Needs Analysis Report which included recommendations for all business areas that were the subject of analysis, in terms of measures that needed to be taken by the CBM to achieve compliance with institutional and operational framework of the ESCB and ECB. The project covered the following business areas of the CBM: accounting, EU integration, financial and banking operations (including international reserves management), financial stability, operational risk and business continuity, and statistics.
3. Technical assistance to the Securities and Exchange Commission of Montenegro in further alignment of relevant legislation with *Union acquis* and best practices in capital market supervision.

The project will ensure coherence with the 2016 Small Business Act for Montenegro and the 2016 Joint Conclusion of the Economic and Financial Dialogues between the EU and the Western Balkans.

In June 2016 Montenegro has adopted a comprehensive Public Administration Reform Strategy 2016-20 and an Action Plan covering the period 2016-17, which are based on an in-depth assessment of the functioning of public administration performed by OECD/SIGMA<sup>1</sup>. The strategy and action plan envisages measures to improve the policy and legislative development process, namely improving internal coordination, consultations with the relevant external stakeholders which are likely to be affected by new regulations and assessment of

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<sup>1</sup> Reference documents:

1) Principles of Public administration (<http://www.sigmaweb.org/publications/Principles-Public-Administration-Nov2014.pdf>);

2) SIGMA 2015 Montenegro Baseline Measurement against the Principles of Public administration ([http://www.sigmaweb.org/publications/Baseline\\_Measurement\\_2015\\_Montenegro.pdf](http://www.sigmaweb.org/publications/Baseline_Measurement_2015_Montenegro.pdf))

regulatory impacts. The implementation of the strategy will be coordinated and managed by the Ministry of Interior, which should be considered as a key interlocutor in the implementation of this project. Within this framework the Human Resources Management Authority is the institution in charge of coordinating and implementing training measures for civil servants and public employees and shall be kept informed about all training activities planned under this project.

OECD/SIGMA is providing assistance to Montenegro on these cross-cutting issues which are relevant for all sectors.

Finally, a new law on general administrative procedures is expected to be adopted early next year; it intends to streamline, reduce and simplify administration procedures.

### 3.3 Results:

The results to be achieved are as follows:

Component A – Regulatory framework in the banking sector and strengthening of capacities of the CBM

#### **Result 1: Regulatory framework in the banking sector further aligned with *Union acquis***

##### **Indicators of achievement:**

- Current regulatory framework which regulates the business operations of banks analysed;
- Drafted laws, regulations and procedures for operations of banking sector aligned with EU Directives and good practices, as well as the requirements of the Capital Requirements Regulation (CRR) and Basel III Committee principles;
- Tables of conformity, options and discretions prepared;
- Decision on Capital Adequacy of Banks in compliance with CRR (the remuneration policy at the banks, to the public disclosure of data, etc.) drafted;
- Alignment of Montenegro's legislation in the area of prevention of money laundering and terrorist financing with international standards assessed;
- Manual for on-site inspection of compliance with legislation in the area of prevention of money laundering and terrorist financing drafted;

#### **Result 2: Administrative capacities of the CBM further strengthened;**

##### **Indicators of achievement**

- Best practices regarding Capital Adequacy Requirement evaluation and Internal Capital evaluation (ICAAP, SREP, RAS) through minimum five trainings implemented;

- More advanced approach to evaluate the impact of stress testing, similar to the risk return models that are used by the ECB, developed;
- Econometrics methods for assessing financial stability improved;
- Minimum 20% of staff of CBM trained through seminars, training activities including study visits, and workshops.

Component B – Regulatory framework for insurance market and strengthening of capacities of the ISA

**Result 3: Legislation for insurance market further aligned with *Union acquis* (draft Insurance Law, aligned with Solvency II requirements);**

**Indicators of achievement:**

- The level of harmonisation of the current national statutory framework for insurance with the *Union acquis* is analysed and Action Plan for legislation alignment prepared;
- Drafted Insurance Law fully aligned with Directive 2009/138/EC;
- Tables of concordance showing the link between the provisions of the EU and the national legislation prepared;
- Plan of activities for transition on Solvency II reporting system for purpose of market supervision prepared;
- Manual for conveying off-site and on-site insurance supervision process prepared
- Manual for on-site inspection of compliance with legislation in the area of prevention of money laundering and terrorist financing drafted;

**Result 4: Further developed supervisory procedures and practice as well as human resources in the ISA;**

**Indicators of achievement:**

- Plan of activities for improving of the actuarial unit within ISA, defining methodology for conducting actuarial supervision prepared;
- Approach for conducting Industry-wide Quantitative Impact Study (QIS) to determine the financial impact of Solvency II developed;
- At least 12 of ISA staff trained through trainings and ( individual fifteen days) internships for ISA staff in the MS counterpart administration in the field of risk based off-site and on-site supervision, market analysis, monitoring and assessment of market developments as well as economic analyses of market, Supervisory risk assessment actuary practice, all in accordance with the Solvency II Directive regime;
- At least 15 of ISA staff trained in the field of analysis of insurance products, market stress testing and Own Risk and Solvency Assessment (ORSA), insurance products

oversight and governance, through trainings, all in accordance with the Solvency II Directive regime;

- At least 5 of ISA staff trained through trainings in the field of: money laundry and consumer protection in accordance with *Union acquis*;

Component C – Regulatory framework for capital market and strengthening of capacities of SCMN

**Result 5: Capital market regulation further harmonised with the *Union acquis*;**

**Indicators of achievement:**

- Level of harmonization of the current national statutory framework for capital market with *Union acquis* analysed, with Action Plan for legislation alignment drafted;
- By-laws, implementation rules, guidance and recommendations for Law on Capital Market compliant with relevant EU legislation drafted;
- Law on Investment Funds compliant with Directive on Undertakings for the Collective Investments in the Transferable Securities (UCITS) (2014/91/EC), drafted;
- Law on Alternative Investment Funds compliant with Alternative Investment Fund Managers Directive (AIFMD) (2011/61/EU), drafted;
- Law on Amendments to the Law on Voluntary Pension Funds compliant with Directive on Institutions for Occupational Retirement Provision (IORP) (2003/41/EC), drafted;

**Result 6: Strengthened administrative capacities of the SCMN;**

**Indicators of achievement:**

- Procedural manuals on the principle-based supervision, risk-based supervision and proportionate approach to regulation and supervision drafted;
- Manual for on-site inspection of compliance with legislation in the area of prevention of money laundering and terrorist financing drafted;
- At least 13 of SECMN staff trained through seminars, training activities including study visits, and workshops.

3.4 Activities:

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

Activities planned for this Project are set according to results. Activities will be implemented within three components: Component A, which will include activities of the CBM, Component B, which will include activities of the ISA, and component C which will include activities of the SECMN.

All legislative development measures shall be consistent with the Better Regulation approach<sup>2</sup>, which the European Commission is also advocating at EU level. It focuses on inclusive and evidence-based law and policy-making process; in particular it aims to ensure that “policy and legislation are prepared, implemented and reviewed in an open, transparent manner, informed by the best available evidence, accompanied by regulatory and fiscal impact assessments and backed up by involving stakeholders”.

The administrative culture of the beneficiary country is to be taken into account. In case the review or development of specific administrative procedures is strictly necessary, alignment with the general administrative procedures shall be ensured. In addition, whenever written procedural manuals or guidelines are developed, these shall be simple enough to be regularly updated and changed by the staff of the respective organisations without external support. Any guidelines or procedures developed shall not contradict with any legal provision of the country. Finally, any training activities organised should be coordinated with national training institution and, where possible, be carried out in cooperation with it.

### 3.5 Means/ Input from the MS Partner Administration:

#### 3.5.1 Profile and tasks of the Project Leader

##### Profile of the Project Leader:

##### *Qualifications and skills:*

- Relevant university degree (e.g. law, economics or similar)
- Fluency in English (oral and written)
- Presentation and communication skills
- Organizational skills

##### *General professional experience:*

- At least three (3) years of professional experience in financial sector
- High-ranking official in financial sector

##### *Specific professional experience:*

- Experience in project management in the financial sector (banking, insurance or securities market).

##### Tasks of the Project Leader:

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<sup>2</sup> Better Regulation Guidelines: [http://ec.europa.eu/smart-regulation/guidelines/toc\\_guide\\_en.htm](http://ec.europa.eu/smart-regulation/guidelines/toc_guide_en.htm)

- Overall coordination and managing of the implementation of the project in cooperation with the BC Project Leader
- Ensuring sound implementation of the envisaged activities
- Monitoring and evaluating the needs and priorities in the respective sector, project risks, progress against the project budget, benchmarks, and outputs, and taking any necessary remedial actions if needed
- Coordination of MS experts' work and availability
- Providing efficient leadership of the project
- Ensuring backstopping and financial management of the project in the MS
- Participation in Steering Committee meetings
- Organization of study visit
- Project reporting (will be in charge of submission of the quarterly, final reports and other reports needed)

### 3.5.2 Profile and tasks of the RTA

A Resident Twinning Adviser will be responsible for managing the whole experts' team, for advising the beneficiaries, for maintaining the liaison with the partner teams and for managing and overseeing the specific tasks.

One Resident Twinning Advisor (RTA) will be appointed for 24 months, and he/she will be located in the premises of the Securities and Exchange Commission of Montenegro and responsible for the direct implementation of the project.

#### *Qualifications and skills of the RTA:*

- Relevant university degree (e.g. law, economics or similar)
- Fluency in English (oral and written)
- Presentation and communication skills
- Organizational skills

#### *General professional experience:*

- At least three (3) years of general professional experience, in financial sector (banking, insurance or securities market)

#### *Specific professional experience:*

- Experience in project management in the financial sector (banking, insurance or securities market).

#### **Tasks of the RTA:**

As to the general responsibility of the day-to-day implementation of the Twinning project in the Beneficiary Country, the Resident Twinning Adviser (RTA) tasks will include:

- Providing technical advice and assist the administration or other public sector bodies in the



BC in the context of a predetermined work-plan;

- To coordinate all project activities and experts inputs in the country;
- Make recommendations on the organizational structure optimization;
- Ensuring day-to-day implementation of the Twinning project in the BC;
- Ensuring smooth correlation between the activities, deadlines and the envisaged results in the Work Plan;
- To coordinate and organize the training activities;
- To provide advice and assistance in drafting of legal acts, manuals etc. for implementation of the new legislation and supporting documents;
- Assess continuously the Twinning Project in all stages and provide link to compare it with the specified benchmarks/results and time-frame;
- Prepare the material and documentation for regular monitoring and reporting;
- In cooperation with BC and MC administration prepares the Operative side letters; and
- Take corrective actions, if necessary, inside the terms of the signed contract.

### 3.5.3 Profile and tasks of the short-term experts

The twinning team will be composed as well of a pool of **short-term experts** complying with the following profiles:

#### *Qualifications and skills:*

- Relevant university degree in a field relevant to this assignment (e.g. law, economics or similar);
- Fluency in English language, both written and spoken.
- Communication and presentation skills

#### *General professional experience:*

- At least three (3) years of professional experience in the regulatory and supervisory body in the financial sector (banking, insurance or securities market)

#### *Specific professional experience:*

- Experience in drafting of legislation relevant for this assignment in EU Member State or in countries which were or are candidates and/or potential candidate countries for joining the EU;
- Experience in consulting demonstrated by participation as the key expert in at least one project related to alignment of financial services legislation with the *Union acquis*;
- Experience in financial stability analysis and stress testing;
- Experience in knowledge transfer and/or training of employees of supervisory and/or regulatory bodies in EU Member State or in countries which were or are candidates and/or potential candidate countries for joining the EU.

#### *Tasks of the short-term expert*

- Close cooperation with the Montenegrin experts in undertaking all activities;
- Advance preparation and familiarization with relevant documentation;
- Participating in relevant activities under the scope of the project in cooperation with other experts.
- Working on specific project components.
- Include specialist support services.

#### **4. Institutional Framework**

The key stakeholders which will benefit from this Project are the Central Bank of Montenegro (CBM), ISA, SECMN and the Ministry of Finance which coordinates the work of all the beneficiaries.

Financial services relates to the alignment of legislation in the areas of: banking, insurance, occupational pension funds, financial market infrastructure, securities markets and investment services with the *Union acquis*, but also to its effective implementation by the responsible supervisory institutions, with the ultimate goal to encourage and maintain financial stability.

The institutions responsible for the implementation of the *Union acquis* on financial services are: Central Bank of Montenegro, Insurance Supervision Agency of Montenegro, and Securities and Exchange Commission.

**Securities and Exchange Commission of Montenegro** is an independent regulatory body whose scope of activities and competences cover the supervision of capital market, financial services and supervised entities providing those services. The SECMN has a staff of 26 employees, divided in six departments: Capital Market Department, Corporate Activities Department, Development and International Cooperation Department, Investment and Pension Funds Department, Cabinet of the Chairman and Secretariat. SECMN will be directly involved in the project activities as responsible institution for conducting the supervision on the capital market.

**The Central Bank of Montenegro (CBCG)** is an independent institution, was established on the basis of the Law on Central Bank of Montenegro, passed by the Parliament of the Republic of Montenegro in November 2000. The primary objective of Central bank of Montenegro is to contribute to the maintenance of a stability of the financial system. According to the Law on the Central Bank of Montenegro, CBCG is responsible for preserving financial system stability, including encouraging and maintaining sound banking system and safe and efficient payment system. Moreover, CBCG contributed to preserving price stability.

The total number of employees in the Central bank of Montenegro is **366** organized in **7** sectors and **9** departments. The main functions of the Central Bank of Montenegro divided in the following sectors: Banking Supervision, National Payment Operations, Financial Stability and Research and Statistics, Banking operations and International Payments Transactions and Information Technology

CBCG will be directly involved in the project activities related to the further alignment of the legislative framework in the banking sector and strengthening of Central Bank's institutional and administrative capacities.

**The Insurance Supervision Agency (ISA)** is an independent institution acting as responsible market regulator and supervisor for the insurance market in the beneficiary country, responsible institution for enacting the by-laws and conducting the insurance supervision. The activities of the Agency are organized in the following departments: Supervision Department, Department for General Affairs and Administration, Department for Research, Development and Cooperation and Department for Legislation, Licensing and Common Affairs. Currently, ISA employs 20 people. ISA will be directly involved in the project activities and it will be the responsible institution for conducting the supervision on the insurance market in compliance with Solvency II directive. This would be essential for fulfilment of the requirements derived from the negotiation Chapter 9.

The **Ministry of Interior (MoI)** has a coordination role over the implementation of the Public administration Reform Strategy 2016-20 which includes measures to enhance the policy and legislative process, improve professional development planning in the public sector (the **Human Resource Management Authority** is the lead institution) and to streamline, reduce and simplify administrative procedures.

**The Ministry of Finance (MoF)** is responsible for budget preparation and therefore it shall be involved whenever the implementation of new regulations require dedicated financial resources.

## **5. Budget**

Total cost for this twinning fiche is EUR 1.410.000,00

The EU contribution is EUR 1.269.000,00

The co-financing contribution is EUR 141.000,00

*This co-financing will be considered fulfilled according to the provision of the relevant Financing Decision***6. Implementation Arrangements**

The Directorate for Finance and Contracting of the EU Assistance Funds (CFCU) being the Implementing Agency under IPA bears the sole responsibility for the proper implementation of all contracts in line with the relevant contractual provisions and the requirements governing the indirect management of EU assistance. Alongside, The Project Implementation Unit (PIU) of the Ministry of Finance will be committed to deliver the appropriate technical support to the CFCU, whereby ensuring proper implementation of the contract activities. In this regard, the CFCU, PIU and other stakeholders will closely cooperate. Implementation monitoring will be performed in order to collect the data and keep track of the progress achieved and to report to National IPA coordinator (NIPAC) Office and Delegation of European Union (DEU).

#### 6.1 Implementing Agency responsible for tendering, contracting and accounting

The Directorate for Finance and Contracting of the EU Assistance Funds (CFCU)  
Ministry of Finance  
Address: Serdara Jola Piletica, 81000 Podgorica, Montenegro  
Mrs. Marija Radenovic

#### 6.2 Main counterpart in the BC:

Component A Leader:

CENTRAL BANK OF MONTENEGRO  
Bulevar Svetog Petra Cetinjskog 6  
81000 Podgorica, Montenegro

*Contact person:*

**Lidija Beratović**

Director of Directorate for International Relations and EU

Component B Leader:

INSURANCE SUPERVISION AGENCY  
Moskovska 17/A, M/C1  
81000 Podgorica, Montenegro

*Contact person:*

**Ivana Saranovic Jovicevic**

Deputy Director

Department for Research, Development and Cooperation

Component C Leader:

SECURITIES AND EXCHANGE COMMISSION OF MONTENEGRO  
Kralja Nikole 27a/III

81000 Podgorica, Montenegro

Contact person:

**Aleksandar Đuričković**

Head Assistant in Department for Development and Cooperation

### **BC Project Leader**

**Mr. Zoran Đikanović, PhD**

President of Securities and Exchange Commission of Montenegro

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### **RTA Counterpart**

**Mr. Nikola Pejović**

Secretary of Securities and Exchange Commission of Montenegro

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## 6.3 Contracts

- 1 twinning contract

## **7. Implementation Schedule (indicative)**

7.1 Launching of the call for proposals: 1<sup>st</sup> quarter 2017

7.2 Start of project activities: 3<sup>rd</sup> quarter 2017

7.3 Project completion: 3<sup>rd</sup> quarter 2019

7.4 Duration of the execution period: 27 months

## **8. Sustainability**

With this twinning fiche we would like to ensure the delivery of the long term benefits from the adequate investment in acquiring additional expert knowledge and skills which would result in strengthening administrative capacities, improving regulatory framework and harmonising legislation, as well as further aligning Montenegro with the *Union acquis* in banking, insurance and capital market sector,

This Project will foster a sustainable base for institutional integration in EU-related process. This Project will contribute to enable easier access for private sector to the wider range of financial services. It will also help the trained staff in sharing its experiences with colleagues and especially with new employees. Therefore, activities resulting from this Project will give contribution in terms of being able to operate and solve problems more easily having in mind newly acquired skills.

The project approach will focus on supporting beneficiaries by providing them with tools and approach to analysis and by facilitating the development of policy options instead of offering solutions and delivering final outputs. In this way, the project will focus on developing the capacities of beneficiaries.

Acquired expertise and skills of the staff and increased capability will be continued to be used for further alignment with European standards and best international practice after the Project is finished. The development and practical use of these skills during the Project will also ensure sustainability in the future operations of the beneficiaries.

All beneficiary institutions must implement measures aimed to introduce adequate motivation system for trained employees to provide stable work force and low staff turn-over in line with the rules governing the civil service management.

Finally, it is anticipated that the Project will serve as a significant opportunity to further develop existing partnerships with EU institutions having in mind that Project aiming at harmonisation of the legislation with the *Union acquis*.

## **9. Crosscutting issues** (*equal opportunity, environment, etc...*)

The Project will ensure that all the cross-cutting issues are appropriately incorporated, particularly equal participation of women and men will be secured throughout the design and implementation process. An appropriate balance will be sought on all the bodies and activities of the Project. Institutions benefiting from the Project are equal opportunity employers.

Special attention to minorities and vulnerable groups will be integral part of any activity of the Project. The Project will take into the consideration the principle of equitable representation. There will be regular monitoring to ensure these issues are given due prominence.

The various coordination mechanisms for external assistance, particularly the sector-based coordination group, have ensured that all the central-level stakeholders have been consulted on this Project. Likewise, all the primary stakeholders have been consulted in the formulation of the intervention and will participate in the implementation both as direct beneficiaries and as members of the Steering Committee. All the other non-state stakeholders will be involved in the process of the partnership consultation related to the drafting and implementation of the planned legislation.

The activities envisaged under the present Project should not negatively affect the environment. During the design and implementation phase, the Project production of printed

material will be kept to the strictest minimum and therefore have positive influence on environment.

#### **10. Conditionality and sequencing**

The twinning fiche will be implemented through planned activities of the Action Document “Support to Regulation of Financial Services ”

The CBM, ISA, SECMN and the Ministry of Finance which coordinates the work of all the beneficiaries are obliged to implement the proposed project.

#### **ANNEXES TO PROJECT FICHE**

**ANNEX 1:** Logical framework matrix in standard format

| OVERALL OBJECTIVE                                                                                                                                                 | OBJECTIVELY VERIFIABLE INDICATORS (OVI)                                                                                                                                                                                                                                                    | SOURCES OF VERIFICATION                                                                             |                                                                                                                                                       |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------|
| To provide stable, sustainable and efficient financial services in order to support the private sector development and enhance the competitiveness of the economy | Global Competitiveness index                                                                                                                                                                                                                                                               | Ranking Global Competitiveness Report                                                               |                                                                                                                                                       |
| SPECIFIC OBJECTIVE                                                                                                                                                | OBJECTIVELY VERIFIABLE INDICATORS (OVI)                                                                                                                                                                                                                                                    | SOURCES OF VERIFICATION                                                                             | ASSUMPTIONS                                                                                                                                           |
| To further align the legislation for financial services with <i>Union acquis</i> and strengthen the regulatory and supervisory capacities                         | Level of alignment with <i>Union acquis</i>                                                                                                                                                                                                                                                | EC Progress Report<br><br>Official annual reports submitted by CBM, ISA and SECMN to the Parliament | Montenegro remains committed to the EU accession process;<br><br>Full commitment and support to the Project by the CBM, ISA, SECMN and the Government |
| <b><u>Result 1:</u> Regulatory framework in the banking sector further aligned with <i>Union acquis</i>;</b>                                                      | Current regulatory framework which regulates the business operations of banks analysed;<br><br>Drafted laws, regulations and procedures for operations of banking sector aligned with EU Directives and good practices, as well as the requirements of the Capital Requirements Regulation |                                                                                                     |                                                                                                                                                       |



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| <p><b><u>Result 2: Administrative capacities of the CBM further strengthened;</u></b></p> | <p>(CRR) and Basel III Committee principles;</p> <p>Tables of conformity, options and discretions tables prepared;</p> <p>Decision on Capital Adequacy of Banks in compliance with CRR (the remuneration policy at the banks, to the public disclosure of data, etc.) drafted;</p> <p>Alignment of Montenegro's legislation in the area of Prevention of money laundering and terrorist financing with international standards assessed;</p> <p>Manual for On-site inspection of compliance with legislation in the area of prevention of money laundering and terrorist financing drafted;</p> <p>Best practices regarding Capital Adequacy Requirement evaluation and Internal Capital evaluation (ICAAP, SREP, RAS) through minimum five trainings implemented;</p> |  |  |
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|                                                                                                                                                                | <p>More advanced approach to evaluate the impact of stress testing, similar to the risk return models that are used by the ECB, developed;</p> <p>Econometrics methods for assessing financial stability improved;</p> <p>Minimum 20% of staff of CBM trained through seminars, training activities including study visits, and workshops.</p>                                                                                                                     |  |  |
| <p><b>Result 3: Legislation for insurance market further aligned with <i>Union acquis</i> (draft Insurance Law, aligned with Solvency II requirements)</b></p> | <p>The level of harmonisation of the current national statutory framework for insurance with the <i>Union acquis</i> is analysed and Action Plan for legislation alignment prepared;</p> <p>Drafted Insurance Law fully aligned with Directive 2009/138/EC;</p> <p>Tables of concordance showing the link between the provisions of the EU and the national legislation prepared;</p> <p>Plan of activities for transition on Solvency II reporting system for</p> |  |  |

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| <p><b><u>Result 4: Further developed supervisory procedures and practice as well as human resources in the ISA;</u></b></p> | <p>purpose of market supervision prepared;</p> <p>Manual for conveying off-site and on-site insurance supervision process prepared</p> <p>Manual for on-site inspection of compliance with legislation in the area of prevention of money laundering and terrorist financing drafted;</p> <p>Plan of activities for improving of the actuarial unit within ISA, defining methodology for conducting actuarial supervision prepared;</p> <p>Approach for conducting Industry-wide Quantitative Impact Study (QIS) to determine the financial impact of Solvency II developed;</p> <p>At least 12 of ISA staff trained through trainings and ( individual fifteen days) internships for ISA staff in the MS counterpart administration in the field of risk based off-site and on-site supervision, market analysis, monitoring and assessment of</p> |  |  |
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|                                                                                                          | <p>market developments as well as economic analyses of market, Supervisory risk assessment, actuary practice, all in accordance with the Solvency II Directive regime;</p> <p>At least 15 of ISA staff trained in the field of analysis of insurance products, market stress testing and Own Risk and Solvency Assessment (ORSA), insurance products oversight and governance, through trainings, all in accordance with the Solvency II Directive regime;</p> <p>At least 5 of ISA staff trained through trainings in the field of: money laundry and consumer protection in accordance with <i>Union acquis</i>;</p> |  |  |
| <p><b><u>Result 5.</u> Capital market regulation further harmonised with the <i>Union acquis</i></b></p> | <p>Level of harmonization of the current national statutory framework for capital market with <i>Union acquis</i> analysed, with Action Plan for legislation alignment drafted;</p> <p>By-laws, implementation rules,</p>                                                                                                                                                                                                                                                                                                                                                                                              |  |  |

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| <ul style="list-style-type: none"> <li>• <b>Result 6: Strengthened administrative capacities of the SCMN;</b></li> </ul> | <p>guidance and recommendations for Law on Capital Market compliant with relevant EU legislation drafted;</p> <p>Law on Investment Funds compliant with Directive on Undertakings for the Collective Investments in the Transferable Securities (UCITS) (2014/91/EC), drafted;</p> <p>Law on Alternative Investment Funds compliant with Alternative Investment Fund Managers Directive(AIFMD) (2011/61/EU), drafted;</p> <p>Law on Amendments to the Law on Voluntary Pension Funds compliant with Directive on Institutions for Occupational Retirement Provision (IORP) (2003/41/EC), drafted;</p> <p>Procedural manuals on the principle-based supervision, risk-based supervision and proportionate approach to regulation and supervision</p> |  |  |
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|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | <p>drafted;</p> <p>Manual for on-site inspection of compliance with legislation in the area of prevention of money laundering and terrorist financing drafted;</p> <p>At least 13 of SECMN staff trained through seminars, training activities including study visits, and workshops.</p> |                     |                                                                                                                                                                                 |
| <b>ACTIVITIES</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | <b>MEANS</b>                                                                                                                                                                                                                                                                              | <b>OVERALL COST</b> | <b>ASSUMPTIONS</b>                                                                                                                                                              |
| <p>R.1 – A.1: Drafting of the new legislation in the banking sector</p> <p>R.1 - A 2: Implementation of best practices in the field of the Internal Capital Adequacy Assessment Process (ICAAP, SREP, RAS)</p> <p>R.1 – A.3: Defining a macroprudential strategy by developing a financial stability analysis framework, statistical and mathematical methods for assessment of financial stability, and macro stress testing</p> <p>R.2 – A.1: Training on risk based supervision, inspection</p> | <p>Twinning contract</p>                                                                                                                                                                                                                                                                  | <p>EUR 1.41 mil</p> | <p>Maintaining adequate staff with appropriate skills</p> <p>Counterpart staff in beneficiary institutions identified, available and cooperates in implementing the Project</p> |

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| <p>techniques, anti-money laundering and terrorist financing</p> <p>R.2 – A.2: Develop a more advanced approach to evaluate the impact of stress testing, like the risk return models that are used by the ECB.</p> <p>R.3 – A.1 - Development of the preliminary market impact assessment on Solvency II and drafting new Insurance Law, aligned with Solvency II</p> <p>R.4 – A.1: Strengthening and capacity building in the field of: actuary practice, market analysis, development and research function, money laundry, consumer protection, introduction into the concept of risk based supervision (Solvency II)</p> <p>R.5 – A.1: Level of harmonization of the current national statutory framework for capital market analysed and drafting new Laws, aligned with directives UCITS, AIFMD and IORP</p> <p>R.6 – A.1: Strengthening supervisory capacities for principle-based supervision, risk-based supervision and on-site inspection</p> |  |  |  |
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## ANNEX V: List of relevant Laws and Regulations (optional)

### 1) Insurance Law

Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II)

2) Law on securities (“Official Gazette of the Republic of Montenegro”, 59/00, 10/01, 43/05, 28/06, “Official Gazette of Montenegro” 53/09, 73/10, 40/11 and 06/13)

3) Law on investment funds ("Official Gazette of Montenegro", No. 54/11 of 17 November, 2011)

Directive on Undertakings for the Collective Investments in the Transferable Securities (UCITS) (2014/91/EC)

Alternative Investment Fund Managers Directive(AIFMD) (2011/61/EU)

4) Law on voluntary pension funds (“Official Gazette of the Republic of Montenegro”, No. 78/06 dated December 22, 2006, No. 14/07 dated March 12, 2007 and “Official Gazette of Montenegro”, No. 73/10 dated December 10, 2010, No. 40/11 dated August 08, 2011)

Directive on Institutions for Occupational Retirement Provision (IORP) (2003/41/EC)

5) The Banking Law (“Official Gazette of MNE“, nos. 17/08, 44/10, 40/11)

Directive 2013/36/EU of the European Parliament and of the Council<sup>3</sup>

Regulation (EU) No 575/2013 of the European Parliament and of the Council<sup>4</sup>

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<sup>3</sup> Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC.

<sup>4</sup> 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 (OJ L 176, 27.6.2013, p. 1).



## **ANNEX VI:**

Reference to relevant Government Strategic plans and studies (may include Institution Development Plan, Business plans, Sector studies etc) (optional)

- Reference to National Development Plan
- Reference to Negotiation Chapter 9: Financial services
- Montenegro's Programme for Accession to the EU 2016-2018
- Indicative Strategy Paper PAPER FOR Montenegro (2014-2020)
- Montenegro Development Directions 2015-2018
- Montenegro Public administration Reform Strategy 2016-20 and related action plan 2016-17
- 2016 Small Business Act for Montenegro
- Joint Conclusion of the Economic and Financial Dialogues between the EU and the Western Balkans