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| ANNEX C1: Twinning Fiche **Project title:** "Strengthening supervision, corporate governance and risk management in the financial sector"  **Beneficiary administration:** National Bank of the Republic of Moldova, National Commission for Financial Markets  **Twinning Reference:** MD 17 ENI FI 01 19 R (MD/37)  **Publication notice reference:** Europeaid/160537/DD/ACT/Multi |

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| **EU funded project**  ***TWINNING INSTRUMENT*** |

**1. Basic Information**

1.1 Programme: Strengthening the growth potential of the Republic of Moldova through a more transparent, efficient, competitive and resilient economic environment, ref. CRIS ENI/2017/040-480

*For British applicants: Please be aware that after the United Kingdom's withdrawal from the EU, the rules of access to EU procurement procedures of economic operators established in third countries will apply to candidates or tenderers from the United Kingdom depending on the outcome of negotiations. In case such access is not provided by legal provisions in force at the time of the contract award, candidates or tenderers from the United Kingdom, could be rejected from the procurement procedure.*

1.2 Twinning Sector: Finance, Internal Market and economic criteria.

1.3 EU funded budget: EUR 1,750,000.00

**2. Objectives**

2.1 **Overall Objective:** to support the potential for economic growth in the Republic of Moldova through a more transparent, efficient, competitive and resilient economic environment.

2.2 **Specific objective:** to strengthen supervision, corporate governance and risk management in the financial sector.

2.3 The elements targeted in strategic documents i.e. National Development Plan/Cooperation agreement/Association Agreement/Sector reform strategy and related Action Plans

The proposed action will support the implementation of the Association Agreement (AA) between the European Union and the Republic of Moldova (title IV, Chapter 9 Financial services, Annex XXVIII-A Financial services)[[1]](#footnote-1), EU Single Support Framework for 2017-2020 for the Republic of Moldova (Sector 1: Economic development and market opportunities), the Council Conclusions as well as the relevant priorities outlined in the joint European Commission and European Council working document "Eastern Partnership – focusing on key priorities and deliverables" (Gaps in access to finance and financial infrastructure)[[2]](#footnote-2).

The proposed Action reflects the following priority of the National Development Strategy ("Moldova 2020"): Reducing financing costs by increasing competition in the financial sector and developing risk management tools.

The EU – Republic of Moldova Association agenda for 2017-2019 provides that the parties will work together to prepare the Republic of Moldova for the modernisation of its financial regulatory and supervisory framework, so as to conform itself to internationally agreed regulatory standards in the field of financial services, using EU legislation and international instruments referred to in the relevant annexes to the AA, including the Title IV (Economic and other sectoral cooperation) of this agreement, as a reference to develop a set of rules appropriate for the Republic of Moldova.

**3. Description**

3.1 Background and justification:

Overview of the financial sector in Moldova

Banking sector

The financial sector in Moldova is dominated by banks that account for roughly 90 percent of the total assets in this sector.

The Moldova’s banking sector has 11 licensed banks, out of which 4 subsidiaries of EU banking groups (Societe Generale, ProCredit, Erste and Intesa Sanpaolo). These subsidiaries occupy 25% of banking sector assets. Another 3 biggest banks hold 65% of total assets of the banking sector and are under NBM intensive supervision from June 2015. At 30 September 2017, banking sector assets amounted MDL 78 billion (EUR 3.8 billion) or only 54% of country’s GDP.

Financial situation of Moldova’s banking sector is stable. Banks are well-capitalised (sector capital adequacy ratio is 30%, required >16%), have excessive liquidity (>50% of assets are liquid assets) and are profitable (ROE - 2,4%, ROA – 14,3%).

Banks’ gross credit portfolio consists of only 44% of assets and continues to shrink. Banking sector credit portfolio/GDP ratio is only 24%. Low lending to real sector is due to weak demand from business, high interest rate until now, high interest rates for government bonds and NBM certificates, structural issues. Majority of banks deposits are invested in liquid assets (government bonds, NBM certificates, in accounts at NBM, other banks, cash). NBM encourages banks to play a leading role for financing the real economy, particular SMEs, productive sectors and innovations.

Banking sector faces problems with high level of non-performing loans (17,4%). The increase of ratio is related not with worsening situation, but with NBM tougher supervisory standards for assets classification and recognition of losses in banks’ balance-sheets. NBM requested banks to elaborate strategies on reducing NPL’s level.

Considering that the capital is the main source of covering potential losses, NBM requested banks to adopt a more prudent and forward-looking policy for dividend distribution (majority of banks redirected profit of last two years for strengthening capital). The high capitalisation allowed banks to absorb significant losses, related to deterioration of credit quality, and to invest in Basel III implementation.

Deposits in the banking sector continue to increase (at 30 September 2017, it amounted MDL 58,2 billion or EUR 2.8 billion). Deposits of individuals accounted 66 % of deposits, of legal entities – 34%.

There are remaining vulnerabilities in the banking sector related with banks’ shareholders and related party exposures (solving of these problems is under way), governance and a high reputation risk due to large banking fraud (2014) and involvement in large scale money-laundering scheme called “Laundromat”. Attracting reputable, transparent and financially capable strategic institutional investors in the biggest banks is crucial for the transformation of the banking sector as a whole.

Non-bank credit institutions

The microfinance sector in the Republic of Moldova is comprised of two types of institutions: the savings and credit associations (SCAs) and microfinance organisations (MFOs). Together they constitute 5 percent of the financial sector assets, but the MFOs assets are far larger and their share is 4.4 percent of the financial sector assets. Over the last years, the MFOs sector has registered significant increase, with more than 160 entities (80% growth over the last 4 years) with assets exceeding MDL 5.4 billion, of which MDL 4.7 billion are granted loans. Accordingly, the share of this segment in the lending activity of the financial sector as a whole is below 11% (2017) or 2.8% in relation to GDP (2016).

The MFOs are loosely regulated by the National Commission on Financial Markets (NCFM) but they are not being supervised. The SCAs comply with prudential regulation and NCFM supervises their activities to ensure compliance with the prudential norms. Under the current arrangements, non-bank credit organisations, which include leasing companies and microfinance organisations, are under the oversight of NCFM. While the liability side of their balance sheets do not include deposits, their asset exposures can be very similar to those of banks. Moreover, non-bank credit organisations often take bank loans to intermediate credit to consumers through small business loans, mortgage credit or consumer loans. In the international stage, such practices have come under greater scrutiny after the financial crisis as many of the non-bank credit intermediaries tend to act shadow banks. That is, non-bank credit organisations that use their balance sheets to intermediate bank credit to consumers and businesses to exploit capital arbitrage opportunities. Monitoring the potential interlinkages between such lending practices and bank risk is extremely important to safeguard financial stability.

Introducing prudential regulation and capital requirements, and bringing MFOs under full supervision is strongly recommended to ensure that lending standards, risk management frameworks and loan loss provisioning practices are uniformly implemented across all participants in the sector. This would promote consolidation in this sector and support better internal risk management practices to develop, which in turn will help a more resilient and better regulated financial system to develop in the Republic of Moldova.

Continuous and qualitative consolidation of the microfinance sector indicates a tendency for the transformation of microfinance intermediaries into financially professional institutions, these entities being an alternative for crediting small and medium enterprises. Thus, there is a need to introduce additional mechanisms and levers, which the NCFM currently does not have, although it is necessary to monitor and closely monitor developments in this segment of the financial market. The basis for the implementation of a new mechanism to achieve the synergy of on-site and off-site supervision is the development and implementation of an IT solution tailored to the needs of the sector, focusing on data collection and automated processing, by standardizing reporting templates; developing the analysis and verification system, with the potential for identifying vulnerabilities through alerts; analysis of financial and prudential indicators to identify the main risks that would require additional supervision measures, as well as developing the pro-active dimension of the surveillance activity.

Insurance

The insurance market in Moldova is one of the smallest in Europe amounting to EUR 63 million of written premiums per year. Despite the growth in the volume of insurance premiums, the insurance market remains underdeveloped. The insurance sector is dominated by the motor insurance segment, which represented 67.5% of the total Gross Written Premiums of the sector; followed by property insurance, which accounts for about 8% of the market.

The weaker transparency of the shareholder structure and corporate governance issues raised multiple questions for the NCFM and, together with the problems in the banking sector, undermined the confidence of investors, external creditors and financial services consumers, endangering the stability of the financial sector as a whole. The exaggerated commissions offered by insurers to insurance brokers in the segment of motor third party liability insurance are an impediment to market development. The penetration rate of insurance is a much lower indicator than in the European countries. Profitability and efficiency of the insurance sector remain a challenge. In this respect, concrete measures are needed to improve the regulatory framework and to step up supervisory work, including the change in the solvency regime for insurance companies, the creation of a mechanism to ensure and guarantee the rights of policyholders, strengthening requirements for shareholder structure transparency, the implementation of early intervention mechanisms, resolution and financial remediation, and improving the regulatory framework for crisis management in the insurance market.

Legal framework

Banking sector

As a result of the financial crisis in the banking system of the Republic of Moldova in 2015, emerged a need for a strong regulatory and supervisory framework, in line with best international practices, which could prevent crisis situations in the future and, in particular, will contain a sufficient range of instruments which could be used for solving problems at an early stage. Respectively, the development of the legal, institutional and regulatory framework on financial stability was one of the main actions aimed to strengthen and reform the financial and banking sector in the Republic of Moldova. Moreover, the qualitative achievement of this action was strongly dependent on the resumption of cooperation with development partners, especially EU and IMF.

The supervision of the banking sector is being upgraded from the current Basel I-compliant regime to Basel III. A new Law on banking activity was adopted on October 6, 2017 bringing the Moldovan supervisory framework in line with Basel III principles and the EU Capital Requirements Directives (CRDIV/CRR) According to the new Law and secondary regulations, National Bank should supervise and assess banks on a risk-based, forward-looking, judgement approach, using Supervisory Review and Evaluation process (SREP).

Two important secondary legislative acts on banks’ internal governance and risk management and on assessment of the suitability of members of management bodies (bank administrators) were withdrawn from Basel III package and approved earlier in order to facilitate smoother transition from Basel I to Basel III. Another set of secondary legislative acts (more than 20) will be approved by stages in the course of 2018.

To be mentioned, that Law on NBM will be amended in accordance with Basel III requirements.

As from October 4, 2016, the Law on bank recovery and resolution was approved, (in line with Directive 2014/59/EU), containing resolution tools for resolving a failing bank in an orderly manner without damaging the financial system and the real economy. The Law provides a credible set of tools to intervene early and fast enough in the case of a non-viable or in difficulty bank so that to guarantee the continuity of critical financial and economical functions, reducing negative impacts on the economy and the financial system. The Law is intended to avoid that problems in one bank spill over to other banks, possibly affecting stability of the entire financial system and protects taxpayers. It allows to resolve problem banks in an orderly, quick and efficient manner and gives the National Bank a credible set of tools to intervene sufficiently, promptly in a critical situation of the bank.

Non-banking sector and insurance

Current legal framework regulating the activity on the insurance and microfinance sectors comprise the following laws:

1. Law on Insurance nr.407- XVI of 21.12.2006
2. Law on MTPL Insurance nr.414-XVI of 22.12.2006
3. Law on MTPL Insurance of Transporters to passengers nr. 1553-XIII of 25.02.1998
4. Law on microfinance organisations nr.280 of 22.07.2004

Following the implementation of the Twinning project Development and consolidation of the National Commission’s for Financial Markets’ operational and institutional capacities in the field of prudential regulation and supervision, NCFM achieved good results in the development and promotion of an appropriate and effective regulatory and supervisory framework in accordance with EU legislation and best practices to enable prudential regulation and supervision of the non-banking financial market, including: capital market and UCITS sector, insurance sector and microfinance sector.

The amendments to the insurance legislation approved during the last 3 years aimed at strengthening the financial stability of insurers, establishing more clear criteria of transparency for shareholders of insurance (reinsurance) undertakings, transparent and complete regulation of the procedure applied by NCFM for the improvement of the financial position of insurers, their financial remediation, sanctions applied to insurers for violations and deficiencies observed as well as consolidation of NCFM supervisory capacity. Also amendments refer to improving the legal framework regulating the National Bureau on Motor Insurance (NBMI) activity, and the activity of compulsory motor third party liability insurance and refers in particular to obtaining the NBMI membership, suspension and revocation of that membership, calculation of the registration and membership contribution, election of management bodies and decision-making procedure, etc.

Institutional framework

The financial sector in Moldova is regulated by two supervisors the National Bank of Moldova and the National Commission for Financial Markets.

National Bank of Moldova

According to the Law on the National Bank of Moldova (NBM), the National Bank is the body that regulates and supervises the activities of licensed financial institutions[[3]](#footnote-3), including banks. In this regards, the National Bank has corrective and sanctionary powers and can act at an early stage to address unsafe and unsound practices and activities, as well as to apply recovery and resolution measures.

National Bank overall staff is 436 persons. In the project activities will be involved the following Departments:

Banking Supervision Department (BSD), which is responsible for on-site and off-site supervision of banks and foreign exchange entities, has 35 employees. At this moment, a real progress on banking supervisory system was achieved:

* Since January 1, 2018 a new Law on banking activity and secondary legislation, based on CRDIV/CRR is in place;
* Modern reporting system is in place, with a large number of prudential and financial reporting. According to the new regulations prepared, banks will present their first reports based on COREP and updated FINREP on April 2018;
* Starting from January 1, 2018 on-site and off-site supervision starts to work using SREP approach, including RAS. Some progress in this field was already performed: draft of Regulation on Supervisory Review and Evaluation Process (SREP) prepared; draft of external Regulations on On-site inspection process prepared; draft of Internal Supervisory Manual, using SREP approach, prepared; general framework of Risk Assessment System (RAS) designed; general framework of Supervisory Review and Evaluation process designed;
* Profile of banking supervision staff changed: on-site examiners became risk experts and off-site supervisors – bank experts and coordinators;
* The system of active dialogue of NBM banking supervisors and banks, external auditors is under development.

Financial Stability Division (FSD) is responsible for macroprudential supervision of the banking sector and has 5 employees. As a separate division it was established in February 1, 2017 (previously macroprudential function was conducted by a section within BSD). At this moment, from the perspective of macroprudential supervision system-wide stress tests are used. At the same time, some studies were developed for internal usage purpose (study for systemically important banks’ identification, early warning study, interconnectedness of banking sector).

Banking Resolution Division (BRD) is responsible for banking resolution and has 11 employees. It was established in February 1, 2017 as an independent division (earlier it was a section within BSD). The main tasks of BRD are to prepare banks’ resolution plans and apply resolution tools in order to achieve the main objectives of the unit, which are:

* to ensure continuity of banks’ critical functions;
* to avoid significant negative effects on financial stability, particularly trough preventing contagion and maintaining market discipline;
* to protect public funds by minimizing addiction to extraordinary public financial support; and others.

According to the new Law on bank recovery and resolution (based on BRRD), banks have the obligation to elaborate recovery plans. NBM based on best practices, sent a detailed guide to the banks on what to include in a recovery plan. After submission by banks, NBM examined all recovery plans and sent to all banks recommendations for improvement.

In the same period, resolution plans have been elaborated for all licensed banks, and will be reviewed periodically or as needed. In addition to this, the draft of the Internal Procedure regarding the elaboration of the resolution plans is going to be finished in the nearest future.

National Bank has applied already an early intervention regime on one bank. The mandates of management bodies’ members of a bank were suspended and temporary administrators with the powers of the Council and of the Chairman of the bank's Administrative Committee were appointed. It should be mentioned that after the application of the early intervention regime, the liquidity situation of the bank remained stable, without significant withdrawals of deposits as anticipated.

National Commission for Financial Markets

The NCFM was established in 2007 as the successor of rights and liabilities of the National Securities Commission, State Inspection for Insurance and Non-state Pension Funds supervision and State Supervisory Service of Savings and Loan Associations under the Ministry of Finance.

The NCFM is an autonomous public authority reporting to the Parliament, which regulates and authorises the activity of professional participants to the non-banking financial market and supervises observance of legislation by them. It is invested with the power to make decisions, grant benefits, interfere, monitor, interdict, and impose administrative and disciplinary penalties pursuant to the legislation.

The core objectives of the NCFM are: enhancing stability, transparency, security and efficiency of the non-banking financial sector, by adoption and maintenance of an adequate regulatory and supervisory framework of the participants on the financial market, to reduce systemic risks and to prevent disloyal, abusive and fraudulent practices in the financial sector with the scope of protecting the interests of clients and investors. The authority of the NCFM refers to: the issuers of securities, investors, the participants on the non-banking financial market, defined by the legislation on securities market, insurance companies, insurance brokers, non-state pension funds, micro-financing organizations, savings and loan associations, mortgage credit organizations and credit history bureaus. All NCFM decisions are published on the official website [www.cnpf.md](http://www.cnpf.md).

The activity of the NCFM is managed by the Council of Administration, which a collegial body composed of five members, appointed for a period of five years by the Parliament, including chairman and two deputy chairmen, which are, respectively, chairman and deputy chairmen of the NCFM.

The NCFM is financed entirely by the regulatory fees and charges paid by the market participants.

The NCFM operates based on the structure that is approved by the Parliament. The number of employees as per 01.10.2017 is 86 employees. The Departments which will be involved in the twinning project are the following:

General Division for Insurance Supervision (GDIS), which is responsible for regulation, authorisation and supervision of professional participants on the insurance market, including insurance undertakings, insurance/reinsurance brokers and other insurance intermediaries. GDIS has 19 employees and includes the Division for insurance regulation and authorization, the Division for monitoring, statistics and actuarial function and Division for insurance control. Recently NCFM has completed the selection and appointment of the necessary staff in the GDIS and following this, the Division became fully operational.

The main tasks of the GDIS are: regulation, authorization and supervision of the activity of insurers and insurance intermediaries in order to maintain the stability, transparency, safety and efficiency of the insurance market as well as to prevent and mitigate systemic risks and to protect the consumers of insurance services. One of the major responsibilities of the Division for the upcoming future is to transpose the provisions of the EU Solvency II Directive and related normative framework in the national insurance legislation in order to achieve the commitments assumed by the Republic of Moldova in the EU-RM Association Agreement.

In order to improve the legal framework related to insurance market the following legal and normative acts were developed and approved:

* amendments to the Law on insurance which aims to strengthen the financial stability of insurers and to consolidate the NCFM supervisory capacity;
* amendments to the Law on compulsory motor third party civil liability (MTPL) insurance, which aims at improving the legal framework regulating the National Bureau of Motor Insurers activity (NBMI);
* regulation on the requirements for training and professional competence in insurance, which transposes the provisions of the Insurance Distribution Directive 2016/97 of 20.01.2016, Directive 2002/92/EC of 09.12.2002 on Insurance Intermediation and IAIS Principles No.18 "Intermediaries" and No.19 "Market Conduct". The Regulation establishes the compliance requirements imposed to persons who distribute directly to the consumer insurance products;
* regulation on requirements for Insurers' Reinsurance Program and Rules on Reinsurance Contracts, which will allow a prudent assessment of the concentration of risks in the domestic market and volumes reinsured in the foreign markets. The Regulation ensures compliance to the IAIS Principle no. 13 "Reinsurance and Other Forms of Risk Transfer" setting out the policies and procedures for insurers, as well as supervisors’ approaches for the assessment of reinsurance policies of supervised entities;
* amendments to the Regulation on solvency margins and the liquidity ratio of insurers (reinsurers), which aims at strengthening the financial situation of insurers;

Having the scope of intensification of the supervision activity, the following measures were applied for the financial consolidation of the entities in the insurance sector:

* increasing the capitalization of insurers carrying out compulsory MTPL insurance (Green Card) up to MDL 22.5 million and insurance and / or reinsurance brokers - up to MDL 100.0 thousand);
* establishing and implementing early intervention measures by setting up an insurer's special administration and the financial recovery plan of another insurer;
* establishing conditions for the holding of qualified holdings in the insurer's share capital;
* strengthening the rules on licensing of insurance and insurance intermediation and / or reinsurance mediation activities;

General Division for Collective Placements and Microfinancing, which is responsible for regulation and supervision of the non-banking credit organizations, savings and credit associations, pension funds and UCITS, has 11 employees.

The main tasks of the GDCPM are: regulation, authorization and supervision of the activity of UCITS, assets managers, savings and loan associations, microfinance organizations, mortgage lending organizations etc. in order to maintain the stability, transparency, safety and efficiency of the non-banking financial market as well as to prevent and mitigate systemic risks and to ensure consumer protection.

The staff number of GDCPM is not complete yet and following the approval by the Parliament of the new legal framework on non-banking credit organizations, NCFM shall ensure that staff are appropriately qualified and have sufficient knowledge, experience, and training to perform their responsibilities under the new regulatory framework.

At this moment, a real progress on non-banking credit organizations regulation and supervision was achieved:

* on 12 February 2018, the draft Law on non-banking credit organization was approved by the Parliament and it is being promulgated. The draft law provides for a common regulatory and supervisory framework for entities carrying out the following activities: lending, including microcredits and mortgages, factoring, financial leasing, and aims at ensuring the sustainable development of the microfinancing organizations sector by reducing systemic risks and protecting consumers rights;
* With the technical assistance support for NCFM, a database system for the storage, consolidation, analysis and monitoring of financial data of the microfinancing sector (SCAs and MFOs) is under creation;
* on 20 October 2017 the Parliament approved in the second reading the draft Law for amending of some legislative acts in the context of the Law on Savings and Credit Associations (No. 139-XVI of 21.06.2007). The draft provides the simplification of the procedure for holding general meetings of the members of SCAs, reducing the minimum quorum threshold, completing the powers of the SCA Board and replacing the Stabilization Fund with the Saving Assets Fund for the compensation of individuals in case of forced liquidation or insolvency of SCAs.

3.2 Ongoing reforms:

Banking sector

Under the IMF programme for 2017-2019 (ECF/EFF), NBM has committed to perform structural reforms in the banking sector for strengthening banks’ governance and financial conditions by bringing full transparency to bank shareholders, certifying the fit and proper status of bank owners and administrators, identifying related party lending and ensuring compliance with regulatory and capital requirements. Additionally, the IMF required to enhance regulatory and supervisory frameworks and to improve the infrastructure of the financial system.

The Memorandum of Understanding for the proposed EU Macro Financial Assistance Programme includes conditions related to reinforcement of governance and supervision of the financial sector. Law on Banking Activity and key secondary legislation shall be adopted, identification of Ultimate Beneficiary Owners (UBOs) of qualified shareholders and diagnostic analyses of related party exposures in banks shall be done, etc.

Following a Twinning project conducted in 2015-2017, a new regulatory and supervision framework was prepared, adopting Basel III requirements for entire banking sector. A new Law on banks’ activity was adopted, and entered into force starting from January 1, 2018. Following the Law, more than 20 secondary Regulations are being prepared by NBM (some remaining in stages until June 2019). Although NBM will have all regulations on place, from practical and technical point of view it will be needed a lot of efforts, trainings and time to properly supervise the banks under new rules. The National Bank together with banks intend to gradually implement Basel III requirements.

For increasing efficiency of banking supervision, NBM is developing a central risk monitoring system. Its first component, Credit Risk Register, is already implemented. For its second component, a company for the purchase of an IT solution to improve efficiency of the licencing, authorisation and notification process was selected and implementation of the solution is in progress. Public tender for acquire the third component - AML/CFT and Shareholders Transparency software was initiated. Further initiatives on the EU best practices in increasing the use of IT tools in supervision (for RAS/SREP/on-going supervision) needed.

In 2017 NBM remuneration system reform started, at the end of the reform it is expected that NBM will be capable to hire qualified staff and motivate current supervisors. Consulting company Korn Ferry Hay Group has started to design a modern remuneration system.

The Bank Recovery and Resolution Law will be used fully in the EU BRRD philosophy only from 2024, particularly for minimising losses to taxpayers (up to 2020 no bail-in, no Resolution fund; not fully will be used the mechanism of public instruments of financial stabilization). National Bank has no experience in application of new resolution tools and further assistance in this area is required. Until 2024, the Government has the right to decide on the financing of measures, actions and tools for resolution (issuing state securities, granting state guaranties, etc.).

At the same time, according to the provisions of the Law on banks’ recovery and resolution, a national macroprudential authority has to be established. The National Bank prepared a draft Law on Financial Stability Committee, which will set and coordinate macroprudential policy and coordinate crisis preparedness and management. When establishing the macroprudential mandate, ESRB recommendation on macroprudential mandate of national authorities (ESRB/2011/3) was taken into account. Due to small experience in macroprudential policy area, as well as considering the importance of financial stability objective, an international experience is helpful when setting macroprudential strategy and prepare all procedures for proper application of macroprudential tools.

Non-banking sector

Following the commitments assumed by the Republic of Moldova in the EU-RM Association Agreement, the provisions of the Solvency II Directive and related regulations shall be transposed in the national insurance legislation within 7 years from the date of signing the Agreement. Given the aspiration of NCFM to move towards risk-based supervision, there is considerable scope to initiate with the support of the World Bank experts the development of the new insurance and MTPL insurance legislation in accordance with Directive 2009/138/EC of 25.11.2009 on the establishment and performance of insurance and reinsurance activities (Solvency II).

Given the provisions of the EU Memorandum for Macro-financial Assistance, NCFM has to develop an Action Plan for the audit of insurance companies and to promote the new legislation on non-banking credit organizations.

The new draft Law on non-banking credit organizations and the draft Law amending the legislation by delegating NCFM supervisory powers over leasing sector have been approved by Moldovan Governments and are under examination in the Parliamentary committees. The new legal framework establishes the authorization procedure for non-bank lending activity, certain prudential requirements, including minimum share capital and equity requirements, management framework as well as prudential reporting, and the application of the unique supervisory framework of the responsible authority to ensure that lending standards, risk management frameworks and loan loss provisioning practices are uniformly implemented across all participants in the sector.

Pending issue: according to the provisions of insurance legislation and in order to protect the interests of the insurance policyholders, insurance beneficiaries and injured third parties the Insurance Guarantee Fund shall be established and launched. The resources of the Fund shall be used to pay the compensations resulting from voluntary (optional) and mandatory insurance contracts, concluded in compliance with the above mentioned law, in case of insurer insolvency. The draft Law on national insurance guarantee fund is in the process of examination in the Parliament and no clarity on this topic exists at the moment.

Another important achievement is the promotion in the Government of the new draft Law on non-banking credit organizations and the draft Law amending the legislation by delegating NCFM supervisory powers over leasing sector. The new legal framework establishes the authorization procedure for non-bank lending activity, certain prudential requirements, including minimum share capital and equity requirements, management framework as well as prudential reporting, and the application of the unique supervisory framework of the responsible authority to ensure that lending standards, risk management frameworks and loan loss provisioning practices are uniformly implemented across all participants in the sector.

3.3 Linked activities:

Banking sector

Recently, National Bank has successfully finalised a two-year Twinning project “Strengthening the NBM’s capacity in the field of banking regulation and supervision in the context of EU requirements” with central banks of Romania and Netherlands. The project contributed to harmonise prudential regulation and supervision framework with the EU standards related to EU CRDIV/CRR package (Basel III) and to prepare the base for the implementation of new standards.

EU High Level Adviser (HLA) on Banking sector provides policy advice to the National Bank on banking supervision reform with the main goal of creating a modern and efficient supervisory framework in line with EU standards (Basel III). Support in the strengthening of NBM communication capabilities for better informing society about banking sector and cooperation with other institutions with the aim of efficient fight against economic crimes is also provided.

During his mandate (until end 2016), EU HLA on Financial System Governance was strongly involved in assistance for financial stability. In this regards, recommendations for the improvement of Financial Stability Report were presented. At the same time, a proposal for Financial Stability Committee reformation was launched and was used as a basement for the draft of the Law on Financial Stability Committee.

The International Monetary Fund (IMF) is periodically conducting financial sector assessment programs (FSAP). The last FSAP (2014) included an assessment of the compliance level with Core Principles for Effective Banking Supervision (Basel Core Principles methodology) and crisis management capacity. The Moldovan authorities have been working to implement the recommendations of the last assessment to increase the degree of compliance with the Basel Core Principles, and Twinning project will contribute significantly to set basis for a more effective banking supervision of the National Bank.

Under IMF (ECF/EFF) funding programme for three years, NBM periodically is receiving technical assistance from IMF/World Bank (in 2017 the assistance was on related party transactions, communication on banking sector, deposit insurance scheme).

The National Bank has also received support from the Treasury Department of the United States on certain aspects of banking regulation, supervision and resolution. A broad ranging programme of assistance (headed by Resident Adviser) is aimed at improving methodology in the context of banks’ recovery and resolution, the implementation of international financial reporting standards and corporate governance. Additionally, US Treasury experts are advising NBM on the development Financial Stability Reports.

National Bank works closely with supervisors in other countries, including EU Member States in the context of the regulation and supervision of banks' activities. National Bank staff are participating in training courses and workshops organised by central banks in EU Member States on various topics related to banking supervision and regulation, macroprudential supervision, bank’s recovery and resolution and others.

Non-banking sector

A twinning project "Development and consolidation of the National Commission for Financial Markets’ operational and institutional capacities in the field of prudential regulation and supervision" was implemented in 2015-2017 in cooperation with Polish Financial Supervision Authority – KNF.

Currently NCFM jointly with the World Bank team is preparing the initiation of the Insurance Market Reform Project with the financial support of FIRST Initiative. The project aims to strengthen the legal and regulatory framework for insurance in Moldova, addressing gaps in the provisions relating to capital adequacy, reserve requirements, claim service, auditing, corporate governance and other issues identified by the 2014 FSAP. The project shall also address the topics related to development of fit-and-proper requirements for shareholders, board members and management of insurers as well as development of minimum requirements for the audit of insurance companies. The implementation of the project has been coordinated with the EU and is in line with the commitments assumed in the EU-RM Association Agreement. The enhancement of the insurance legal and regulatory framework in line with the EU Directives and international standards together with improved supervisory capacity would serve as foundations for the sector growth in the long-term.

3.4 List of applicable *Union acquis*/standards/norms:

For the banking sector: Capital Requirements Directive (CRDIV/CRR Package), Bank Recovery and Resolution Directive (BRRD), EBA technical standards and guidance, ESRB recommendations.

For non-banking and insurance sectors:

Directive 2009/138/EC of 25.11.2009 on the establishment and performance of insurance and reinsurance activities (Solvency II), Directive 2016/97 of 20.01.2016 on insurance distribution (IDD Directive), Directive 2009/103/Ec of 16.09.2009 relating to insurance against civil liability in respect of the use of motor vehicles, and the enforcement of the obligation to insure against such liability (MTPL Directive), Directive 91/674 of 19.12.1991 on the annual accounts and consolidated accounts of insurance undertakings.

3.5 Results per component

**Component 1: Implementation of new supervisory framework and application of supervisory measures and powers**

Mandatory result 1: Supervision framework in line with Basel III principles is fully implemented.

In the context of Result 1 the following benchmarks will be achieved:

1. Decreased number of banks, which present to NBM non-accurate reports (COREP) for risks identification at an early stage;
2. Decreased number of banks with the highest (riskiest) overall SREP score for less risk-taking;
3. Increased number of banks with additional own funds requirements determined by NBM’s SREP capital assessment for higher capitalization;
4. Decreased number of banks with weak compliance with requirements regarding internal governance and risk management determined by NBM ‘s SREP risk assessment;
5. Increased number of prompt and effective corrective and sanctioning measures for banks applied by NBM for acting at an early stage to address unsafe and unsound practices;
6. A “Largely compliant” level of compliance with BCBS Core Principle for Effective Banking Supervision (Principles 8, 9, 10, 11, 13, 14-26) is achieved by the next IMF/WB FSAP assessment of NBM banking supervision.

In terms of outcome, the assistance under this component should lead to an increased safety and soundness of banks due to their adequate capitalization and stronger governance.

The above-mentioned result will be achieved by:

* Development, approval, implementation and monitoring of effectiveness of the new regulations/internal procedures/guidelines/framework for prudential banking supervision, in order to be aligned with Pillar I and Pillar II requirements of EU CRDIV/CRR (Basel III), BCBS Core Principle for Effective Banking Supervision and best practices (Risk Assessment System (RAS); Annual Supervisory Examination Programme (SEP); On-site inspection plan, programme, report in using SREP concept; Risk-based, forward-looking, judgment supervision; cooperation with foreign supervisory authorities);
* Capacity building (seminars, training, on-job training) to the NBM banking supervisors and banks on Pillar I requirements (standardized approach), on assessing bank’s internal governance, risk profile and control (credit, related party, market, operational (including IT risk), liquidity, concentration, reputational, strategic) and on calculating additional capital for these risks, on SREP approach, on ICAAP and stress tests;
* Assistance in full implementation of an annual SREP cycle;
* Assistance in development and usage of enforcement and supervisory measures matrix based on SREP and on-site inspection results.

**Component 2: Enhancement of macroprudential framework**

Mandatory result 2: The macro prudential framework is enhanced through improved capacities of the regulators to mitigate a build-up of systemic risks.

In the context of Result 2 the following benchmarks will be achieved:

1. A Macroprudential Policy Strategy is developed and approved;
2. The quality of Annual Financial Stability Reports is improved;
3. Increasing number of macroprudential tools used and of National Bank’s publications on the implementation of macroprudential policy.

The above-mentioned results will be achieved by:

* Assistance for development of macroprudential policy strategy and Annual Financial Stability reports;
* Capacity building (seminars, training, on-job training) on early identification of risks and vulnerabilities to financial sector, timely and properly applying capital buffers, other macroprudential instruments, assessing systemic risk;
* Development and/or improvement of internal methodologies on capital buffers (countercyclical buffer, systemically important banks buffer, systemic risk buffer); on other macroprudential instruments (LTV, DTI, liquidity indicators, instruments limiting FX risk, restricting large exposure concentration by type of economic activities, asset class or other criteria, etc.).

In terms of outcomes, the assistance under this Component should lead to limiting and preventing excessive credit growth, leverage and exposure concentrations by type of economic activities or asset class in the financial system; limiting and preventing excessive currency and liquidity risk, maturity mismatch in the financial system; maintaining a well-capitalised banking sector through setting necessary capital buffers; sound financial indicators (capital adequacy, asset quality, risk concentration, exposure to FX risk, profitability) reported by banks.

**Component 3: Implementation of bank’s recovery and resolution framework**

Mandatory result 3: Bank recovery and resolution framework in line with EU standards (EU Directive 2014/59/EU on recovery and resolution of credit institutions and investment firms) implemented and enforced.

In the context of Result 3 the following benchmarks will be achieved:

1. Bank’s recovery and resolution framework is developed and enhanced;
2. NBM is capacitated to apply the appropriate resolution tools timely and effectively, whenever required;
3. Improved quality of banks’ recovery and resolution plans for being prepared to act in case a bank enters in financial distress.

The above-mentioned result will be achieved by:

* Development, approval, implementation and monitoring of effectiveness of the secondary legislation /internal regulations and procedures/guidelines/framework for recovery and resolution, in order to be aligned with EU BRRD requirements and best practices (secondary legislation for the implementation of the Law on Bank Recovery and Resolution; internal regulations for implementation the mentioned Law and secondary legislation; internal procedure for assessment if a bank is failing or likely to fail; improvement of the internal procedure for assessment of recovery plans, improvement of the internal procedure for drafting resolution plans);
* Capacity building (seminars, training, on-job training) for the NBM banking supervisors on early intervention regime, on assessment of recovery plans and if a bank is failing or likely to fail; for the NBM Banking Resolution Division – on drafting resolution plans and on application of four resolution tools: bail-in, bridge-bank, asset separation and sale of business, for banks – on drafting recovery plans.

In terms of outcomes, the assistance under this Component should lead to a timely and decisive response by the regulator to a bank in financial distress while maintaining financial stability and minimising losses to the public.

**Component 4: Introduction of a new legal framework on supervision of insurance sector and third party motor insurance**

Mandatory result 4: New legislation on supervision of insurance sector and on third party liability motor insurance aligned to EU acquis is developed and enforced.

In the context of Result 4 the following benchmarks will be achieved:

1. New draft primary legislation on insurance assessed regarding the compliance with EU Solvency II Directive and related framework;
2. New secondary legal framework on supervision of insurance sector and on third party liability motor insurance aligned to EU acquis is developed and approved;
3. All relevant employees responsible for insurance licensing, authorisation and supervision are capacitated to effectively enforce the new regulatory framework;
4. Risk matrixes per each insurance company and per sector as a whole developed and enforced;
5. Solvency Capital Requirements enforced and reported to NCFM by all insurers.

The above-mentioned results will be achieved by:

* Assessment by the twinning partners of the draft primary legislation and assistance to the NCFM in case further adjustment to the draft are needed.
* Assistance in drafting the following by-laws (the list may be updated, if needed):

*1. Regulation to shareholders requirements*

*2. Regulation for administrative bodies*

*3. Regulation for the establishment of an insurance company*

*4. Regulation for the calculation of technical provisions*

*5. Regulation and methodology of valuation of assets and liabilities*

*6. Regulations on Solvency Capital, Minimum Capital and Own Funds of Insurers*

*7. Risk-based supervision in insurance*

*8. Separate regulations on requirements to actuaries (reports, risk management, internal control, internal and external audit etc.)*

*9. Requirements for prudential reporting*

*10. Regulations on MTPL insurance, requirements, liberalization of tariffs, bonus malus system, etc.*

*11. Regulations on NBMI activity*

*12. Revision of the regulations on the Street Victims Protection Fund and the Compensation Fund*

*13. Regulation on simultaneous activity requirements*

*14. Requirements for reinsurance cession and risks reinsurance*

*15. Regulation of insurance intermediaries*

*16. Regulation on insurance resolution framework, including recovering, restructuring and remediation*

*17. Liquidation of insurance undertakings*

* Capacity building (seminars, training, on-job training) to NCFM staff to ensure that the staff are appropriately qualified and have sufficient knowledge, experience, and training to perform their responsibilities under the new Solvency II framework, including Solvency capital, minimum capital and Own Funds requirements, on assessing insurers corporate governance and internal control requirements, risk assessment and monitoring, stress tests and resolution framework as well as requirements for MTPL insurance.

In terms of outcomes, the assistance under this Component should lead to an improved governance and financial stability of the insurance companies as well as to an adequate financial capacity of insurers to honour their claims and compensations in case of resolution.

**Component 5: Enhancement of the supervisory framework for non-banking credit institutions**

Mandatory result 5: A new legal framework strengthening supervision of non-bank credit organisations is developed and enforced.

In the context of Result 5 the following benchmarks will be achieved:

1. Necessary methodologies, regulatory and supervisory tools under the new legal framework (primary and secondary legislation) are fully developed and enforced, including:

- Guidelines for assessing the transparency of the ownership structure of the non-bank credit organisations and updating of information about founders (ultimate beneficiaries) prepared and enforced;

- Over-indebtedness index of population assessed and mitigating measures are formulated;

- Portfolio at risk indicator for non-bank credit organisations assessed and monitored;

- Increased accuracy and quality of financial data reported by the operators.

1. Internal procedures for "fit and proper" criteria for administrators of non-bank credit institutions are developed and implemented;
2. All relevant employees are capacitated to effectively enforce the new regulatory framework;

The above-mentioned result will be achieved by:

* Development of the methodologies and supervisory tools enabling the NCFM to assess the compliance of non-bank credit organisations to corporate governance and internal control requirements;
* Capacity building (seminars, training, on-job training) to ensure that the NCFM staff are appropriately qualified and have sufficient knowledge, experience, and training to perform their responsibilities under the new legal and regulatory framework on non-banking credit organisations, including capital requirements, corporate governance and audit requirements, risk assessment and monitoring, as well as consumer protection requirements.

In terms of outcomes, the assistance under this Component should lead to a sound and stable financial development of the non-banking credit organisations, while increasing the transparency of shareholder structures, improving the quality of the corporate governance and ensuring the consumer protection.

Overall, the project will help to improve business environment, to build up investors' confidence and facilitate bank intermediation, thereby contributing to the implementation of the EU-Republic of Moldova Deep and Comprehensive Free Trade Agreement.

3.6 Means/input from the EU Member State Partner Administration(s)\*:

3.6.1 Profile and tasks of the PL:

Project Leader Profile:

* University degree in a relevant field (economics, finance, business administration, accounting / auditing, law or similar) or equivalent professional experience of 5 years on top of the years of the following general professional experience
* At least 10 years of professional experience as high-ranking official in financial sector (such as supervisory authority, or resolution authority, or financial stability authority or equivalent);
* Previous experience in project management will be an asset;
* Good communication skills in written and spoken English;
* Proven contractual relation to a public administration or mandated body, as defined under Twinning Manual 4.1.4.2.

The Member State Project Leader (PL) is expected to be an official or assimilated agent with a sufficient rank to ensure an operational dialogue at political level. The Project Leader is responsible to coordinate the activities, disseminate project information among stakeholders, take part in discussions with high level officials, present and defend project input and expected outputs, manage the project team, prepare project management reports, help overcome project related problems, and assist the RTA for continuous development of project initiatives. The PL will be expected to devote a minimum of 3 days per month to the project in his/her home administration. In addition, he/she will coordinate, from the MS side, the Project Steering Committee (PSC), which will meet in Moldova every three months.

Project Leader Tasks:

* Overall coordination, guidance and monitoring of the project in cooperation with BC Project Leader;
* Timely achievement of the project results;
* Monitoring and evaluating the needs and priorities in the respective sector, project risks, progress against the project budget, benchmarks and outputs, and tanking any necessary remedial actions if needed;
* Co-chairing of project Steering Committees;
* Project reporting (will be in charge of submission of the quarterly and final reports, and other reports needed);
* Provision of legal and technical advice and analysis whenever needed.

3.6.2 Profile and tasks of the RTA:

The Resident Twinning Advisor (RTA) will be based in the Republic of Moldova to provide full-time input and advice to the project for the entire duration of the project. This expert will bear the responsibility to coordinate in the field and on a day to day basis all the activities planned in the Twinning. The RTA can come from a Member State administration or mandated bodies (full or ad hoc).

RTA Profile:

* University degree in a relevant field (economics, finance, business administration, accounting / auditing, law or similar) or equivalent professional experience of 5 years on top of the years of the following general professional experience
* At least 7 years of general professional experience in financial sector (such as supervisory authority, or resolution authority, or financial stability or equivalent);
* Experience in project management in the financial sector (banking, insurance or securities market) will be an asset;
* Excellent communication skills in written and spoken English;
* Proven contractual relation to a public administration or mandated body, as defined under Twinning Manual 4.1.4.2.

RTA Tasks:

* Coordination of all project activities and experts’ inputs in the country;
* Ensuring smooth correlation between the activities, deadlines and the envisaged results in the Work Plan;
* Provision of technical advice and assistance to the administration or other public sector bodies in the BC in the context of a predetermined work-plan to ensure timely completion of project outputs;
* Coordination, facilitation and monitoring of the STEs work during their missions;
* Knowledge management allowing an appropriate records of the delivered outputs;
* Liaison with MS and BC Project Leaders; daily contact with the RTA counterpart;
* Drafting of project progress reports with the Project Leader.

The RTA shall be supported by a full time project assistant. The RTA assistant will be recruited and funded by the project. He/she will be working together with the RTA the whole duration of the project. The RTA assistant will provide logistical and administrative support, technical translation and interpretation services for the RTA to facilitate the implementation of the Twinning project activities and assist in the preparation of working documents, organisation of seminars, training and study tours. The profile of the RTA assistant will be specified by the RTA who will proceed to his/her recruitment following the provisions of the Twinning Manual.

3.6.3 Profile and tasks of Component Leaders*:*

Considering that the project will benefit two institutions and cover different areas of activities, it will be crucial to have skilled and autonomous Component Leaders. These Component Leaders will ensure continuity and consistency within each of the fields concerned. While Component Leaders will not be resident in Chisinau, they are expected to visit Chisinau and work locally with the beneficiary institutions at least 3 times per working year. CV's and proposed activities of each Component Leader shall be an integral part of the MS proposal. The detailed expert input shall be established when drawing up the Twinning Work Plan.

The Components Leaders shall comply with the following minimum requirements:

* Be a civil servant or a staff member in a Member State public administration or mandated body responsible for the financial sector
* University degree in a field relevant to this assignment or equivalent professional experience or equivalent professional experience of 3 years on top of the years of the following general professional experience ;
* At least 5 years of experience in the regulatory and supervisory and / or financial stability or resolution body in the financial sector in the field covered by the project component for which the Component leader will be responsible ;
* Experience in knowledge transfer and/or training of employees of supervisory and/or regulatory bodies in EU Member State;
* Good communication skills in written and spoken English, The main task of the Component Leaders is to coordinate the activities under the area of responsibility in liaison with the partner institutions.

3.6.4 Profile and tasks of other short-term experts*:*

The project will require a number of short term experts (STE) in order to cover the full range of specialised expertise required. These will be suitably qualified and capable of providing the necessary skills and experience according to the expected results mentioned above.

STE profiles (general experience):

* University degree in a field relevant to this assignment or equivalent professional experience;
* At least 3 years of experience in the regulatory and supervisory and / or financial stability or resolution body in the financial sector in specific experience field;
* Experience in knowledge transfer and/or training of employees of supervisory and/or regulatory bodies in EU Member State;
* Good communication skills in written and spoken English, STE Tasks:
* To cooperate closely with NBM and NCFM experts in undertaking all activities;
* To provide technical inputs in specific areas of project implementation in order to achieve mandatory results listed in the twinning fiche, including organisation of workshops, training, coaching, drafting of methodological and relevant handout materials, as per the terms of reference provided by the RTA prior to each mission;
* Advance preparation and familiarisation with relevant documentation;
* To report to the project team.

**4. Budget**

The project will be implemented through a Twinning Contract estimated at a maximum of EUR 1,750,000

**5. Implementation Arrangements**

5.1 Implementing Agency responsible for tendering, contracting and accounting (AO/CFCE/PAO/European Union Delegation/Office):

EUD (Delegation of the European Union to Moldova):

**Mrs Ekaterina Yakovleva**

International Aid Cooperation Officer / Project Manager

Address: 12 Kogalniceanu Str., MD 2001, Chisinau, Moldova

Tel.: +373-22-505210

E-mail: [ekaterina.yakovleva@eeas.europa.eu](mailto:ekaterina.yakovleva@eeas.europa.eu)

5.2 Institutional framework

The beneficiaries of the project will be National Bank of Moldova and National Commission for Financial Markets. For more details, see point 3.1.

5.3 Counterparts in the Beneficiary administration:

The PL and RTA counterparts will be staff of the Beneficiary administration and will be actively involved in the management and coordination of the project.

5.3.1 Contact person

**Oxana Gluscenco**

Head of Policy Coordination and Foreign Assistance Department

State Chancellery  
Government House, 1, Piata Marii Adunari Nationale blvd.  
Tel: +373 22-250212

5.3.2 PL counterparts

**National Bank of Moldova**

**Mr Vladimir Munteanu**

First Deputy Governor, National Bank of Moldova

Address: 1 Grigore Vieru ave, MD-2005, Chișinău, Moldova

Tel. +373-22-822606

5.3.3 RTA counterpart

**National Bank of Moldova**

**Ms Olga Rusu**

Deputy Head of Financial Stability Division, National Bank of Moldova

Address: 1 Grigore Vieru ave, MD-2005, Chișinău, Moldova

Tel. +373-22-822-282

**6.** **Duration of the project**

The overall execution period of the Twinning project is 27 months, i.e. 24 months of implementation plus 3 months

**7. 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.

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 and regulatory impact assessments instead of offering solutions and delivering final outputs. In this way, the project will focus on developing the capacities of beneficiaries. The project will also support the beneficiary institutions in carrying on appropriate inter-institutional and public consultations according to national regulation.

The project will ensure that any guidelines and internal procedures developed with its support will not contradict other relevant horizontal regulation applying horizontally to public institutions; in addition guidelines and internal procedures shall be simple enough to be regularly revised and updated by the beneficiaries without further external assistance.

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.

The remuneration system reform started by the NBM should continue and both 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.

**8. Crosscutting issues**

Each Twinning partner is required to comply with the equal opportunities requirements of the European Union. The principal of equal opportunity will be integrated into all stages of the project implementation.

The activities envisaged under the present Project should not negatively affect the environment. During the implementation of the Project, the production of printed material will be kept to the strictest minimum and therefore have positive influence on the environment.

**9. Conditionality and sequencing**

The project includes the following conditionality elements:

* Proactive and equal involvement of both institutions in the implementation of the project;
* Selection and appointment of members of working groups; steering and coordination committees, seminars by the beneficiaries and organisation of these meetings as per work plan of the project;
* Appointing the relevant staff by the beneficiaries to participate in training activities as per work plan;
* Sufficient managerial and technical human resources;
* Close collaboration and complementarity with ongoing or future EU funded projects including High Level Advisory Mission.

**10. Indicators for performance measurement**

See Annex I

**11. Facilities available**

Considering that two institutions will participate in the project, the RTA and his/her assistants will be provided an office in NBM and NCFM headquarters to be used on rotation basis (tentatively 3 days in NBM, 2 days in NCFM). The offices will be equipped with all necessary equipment (computer, printer, phone, internet access). Detailed hardware and software requirements should be discussed at the beginning of the project.

Trainings and presentations will take place in conference rooms, equipped with projector and computer for presentations, flipcharts and other necessary items can be provided on requirement.

STE may also work with involved NBM/ NCFM experts in their offices and will be provided with all necessary equipment (computer, internet access, specific software).

**ANNEXES TO PROJECT FICHE**

1. Logical framework matrix in standard format

**Annex 1: Logical Framework Matrix**

|  |  |  |  |
| --- | --- | --- | --- |
| Twinning Project: **Strengthen supervision, corporate governance and risk management in the financial sector**  MD 17 ENI FI 01 19 R (MD/37) | | Name and number of the program: **Strengthening the growth potential of the Republic of Moldova through a more transparent, efficient, competitive and resilient economic environment, ref. CRIS N ENI/2017/040-480** | |
| Contractual period expires at:  01/08/2020 (date is indicative, subject to the signature of FA) | Payment period expires at:   01/02/2022 |
| Total Budget: EUR 1.750.000 | Contribution: EUR 1.750.000 |
| **General Objective** | **Objectively verifiable indicators (OVI)** | **Sources of verification** |  |
| ❖ To support the potential for economic growth in the Republic of Moldova through a more transparent, efficient, competitive and resilient economic environment. | • Qualitative assessment by relevant EU institutions  • Evaluation by other international institutions such as IMF/WB in periodic reviews (Art. IV and FSAP) | • The assessment of EC  • Evaluation reports prepared by the IMF/WB and other institutions |
| **The project purpose** | **Objectively verifiable indicators** | **Source of verification** | **Assumptions** |
| To strengthen supervision, corporate governance and risk management in the financial sector. | Qualitative progress on the mitigation of systemic risks to financial stability | WB & IMF reports and NBM and NCFM Annual Reports and qualitative assessment by the end of the project | The Moldovan authorities remain committed to the reforms, vested interests do not hamper the reform process |
| **Results** | **Objectively verifiable indicators** | **Source of verification** | **Assumptions** |
| Component I: Supervision framework in line with Basel III principles is fully implemented. | Decreased number of banks, which present to NBM non-accurate reports (COREP) for risks identification at an early stage (baseline- current legislation does not require to produce such reports; first COREP report will be presented by banks in Q2 2018) | • Annual reports of NBM [2018-2020]  • Regulations for banks approved and published in the Official Monitor  • Final report on the project  • Reports prepared by the IMF/WB (FSAP) and other international institutions | NBM remains committed to the reforms  There is an appropriate involvement of the NBM staff in project's activities |
| Decreased number of banks with the highest (riskiest) overall SREP score for less risk-taking (baseline - current legislation does not require to produce SREP reports with scoring; first SREP report will be prepared in H2 2018) |
| Increased number of banks with additional own funds requirements determined by NBM’s SREP capital assessment for higher capitalization (baseline - current legislation does not require to produce SREP reports; first SREP report will be prepared in H2 2018) |
| Decreased number of banks with weak compliance with requirements regarding internal governance and risk management determined by NBM ‘s SREP risk assessment (baseline - current legislation does not require to produce SREP risk assessment; first SREP risk assessment will be prepared in H2 2018) |
| Increased number of prompt and effective corrective and sanctioning measures for banks applied by NBM for acting at an early stage to address unsafe and unsound practices (baseline – current legislation has old sanctioning system; new sanctioning system will be in place from January 1, 2018). |
| A “Largely compliant” level of compliance with BCBS Core Principle for Effective Banking Supervision (Principles 8, 9, 10, 11, 13, 14-26) is achieved by the next IMF/WB FSAP assessment of NBM banking supervision |
| Component II: The macro prudential framework is enhanced through improved capacities of the regulators to mitigate a build-up of systemic risks | A Macroprudential Policy Strategy is developed and approved | Publicly available macro prudential policy strategy  Publicly available Annual Financial Stability Reports  Qualitative assessment by the IMF/WB (FSAP) and other international institutions  Annual reports of NBM [2018-2020]  Project's reports | Financial Stability Committee is functional and it is committed to the reforms  NBM remains committed to the reforms  There is an appropriate involvement of the NBM staff in project's activities |
| The quality of Annual Financial Stability Reports is improved; |
| Increasing number of macroprudential tools used and of National Bank’s publications on the implementation of macroprudential policy (baseline - current legislation does not require to apply macroprudential tools; new macroprudential framework will be in place from January 1, 2018[[4]](#footnote-4)) |
| Component III: Bank recovery and resolution framework in line with EU standards (EU Directive 2014/59/EU on recovery and resolution of credit institutions and investment firms) implemented and enforced | Bank’s recovery and resolution framework is developed and enhanced; | Annual reports of NBM [2018-2020]  Qualitative assessment by the IMF/WB (FSAP) and other international institutions  Project's reports | NBM remains committed to the reforms  There is an appropriate involvement of the NBM staff in project's activities |
| NBM is capacitated to apply the appropriate resolution tools timely and effectively, whenever required |
| Improved quality of banks’ recovery and resolution plans for being prepared to act in case a bank enters in financial distress |
| Component IV: New legislation on supervision of insurance sector and on third party liability motor insurance aligned to EU acquis is developed and enforced. | New draft primary legislation on insurance assessed regarding the compliance with EU Solvency II Directive and related framework; | Legislation approved and published in the Official Monitor of the RM  Annual report of NCFM  Qualitative assessment by the IMF/WB (FSAP) and other international institutions  Project's reports | Draft laws on insurance and third parties liability motor insurance prepared by WB by the beginning of the project  NCFM remains committed to the reforms  There is an appropriate involvement of the NCFM staff in project's activities |
| New secondary legal framework on supervision of insurance sector and on third party liability motor insurance aligned to EU acquis is developed and approved; |
| All relevant employees responsible for insurance licensing, authorisation and supervision are capacitated to effectively enforce the new regulatory framework. |
| Risk matrixes per each insurance company and per sector as a whole developed and enforced |
| Solvency Capital Requirements enforced and reported to NCFM by all insurers |
| Component V: A new legal framework strengthening supervision of non-bank credit organisations is developed and enforced | Necessary methodologies, regulatory and supervisory tools under the new legal framework (primary and secondary legislation) are fully developed and enforced, including:  - Guidelines for assessing the transparency of the ownership structure of the non-bank credit organisations and updating of information about founders (ultimate beneficiaries) prepared and enforced;  - Over-indebtedness index of population assessed and mitigating measures are formulated;  - Portfolio at risk indicator for non-bank credit organisations assessed and monitored;  - Increased accuracy and quality of financial data reported by the operators | Regulations publicly available  Over-indebtedness Index and the mitigating measures are published on NCFM website  NCFM reports  Project's reports  Reports prepared by the IMF/WB (FSAP) and other international institutions | The new law and secondary legislation on non-bank credit institutions is in force before the start of the project  NCFM remains committed to the reforms  There is an appropriate involvement of the NCFM staff in project's activities |
| Internal procedures for "fit and proper" criteria for administrators of non-bank credit institutions developed and implemented; |
| All relevant employees are capacitated to effectively enforce the new regulatory framework |

1. <http://eeas.europa.eu/archives/docs/moldova/pdf/eu-md_aa-dcfta_en.pdf> [↑](#footnote-ref-1)
2. <https://eeas.europa.eu/sites/eeas/files/swd_2016_467_f1_joint_staff_working_paper_en_v3_p1_8733051.pdf> [↑](#footnote-ref-2)
3. NBM is providing licenses and supervise the following institutions: banks, payment institutions/postal operators, electronic money institutions, foreign exchange entities. [↑](#footnote-ref-3)
4. Macroprudential tools are introduced by CRDIV/CRR package, the full toolkit can be found in ESRB/2013/1 recommendation. [↑](#footnote-ref-4)