



## 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

**Twining Reference:** MD 20 ENI FI 01 20 (MD/36)

**Publication notice reference:** EuropeAid/169886/DD/ACT/Multi

**EU funded project**

***TWINNING TOOL***

## 1. Basic Information

- 1.1 Programme: EU4Moldova: Facility to support the health response to the COVID-crisis and Association Agreement related Reforms, ref. CRIS number: ENI/2020/042-585<sup>1</sup>

*For UK applicants: Please be aware that following the entry into force of the EU-UK Withdrawal Agreement<sup>2</sup>\* on 1 February 2020 and in particular Articles 127(6), 137 and 138, the references to natural or legal persons residing or established in a Member State of the European Union are to be understood as including natural or legal persons residing or established in the United Kingdom. UK residents and entities are therefore eligible to participate under this call.*

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

- 1.3 EU funded budget: EUR 2,000,000.00

## 2. Objectives

- 2.1 **Overall Objective** (impact) of this action is to support the Republic of Moldova in the implementation of some reforms linked to the EU-Moldova Association Agreement/DCFTA and Association Agenda
- 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)<sup>3</sup>, 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)<sup>4</sup>.

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

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<sup>1</sup> Please note that the awarding of the contract is subject to the condition of the prior conclusion of a financing agreement

<sup>2</sup> \* Agreement on the withdrawal of the United Kingdom of Great Britain and Northern Ireland from the European Union and the European Atomic Energy Community.

<sup>3</sup> [http://eeas.europa.eu/archives/docs/moldova/pdf/eu-md\\_aa-dcfta\\_en.pdf](http://eeas.europa.eu/archives/docs/moldova/pdf/eu-md_aa-dcfta_en.pdf)

<sup>4</sup>

[https://eeas.europa.eu/sites/eeas/files/swd\\_2016\\_467\\_f1\\_joint\\_staff\\_working\\_paper\\_en\\_v3\\_p1\\_8733051.pdf](https://eeas.europa.eu/sites/eeas/files/swd_2016_467_f1_joint_staff_working_paper_en_v3_p1_8733051.pdf)

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 - the Banking sector

The financial sector in Moldova is dominated by banks which account for roughly 86 percent of total assets in this sector.

Moldova's banking sector has 11 licensed banks, out of which 5 subsidiaries of EU banking groups (OTP Bank Nyrt, ProCredit, Erste, Intesa Sanpaolo and Banca Transilvania). These subsidiaries hold 41.3% of banking sector assets.

Thanks to the reforms implemented in 2016-2018 after the 2014-2015 banking crisis, the Moldovan banking sector has been considerably reshaped in terms of quality and transparency of shareholders, corporate governance, risk management and AML/CFT requirements, regulatory and supervisory framework.

A significant transformation in the structure of Moldovan banks' shareholding has happened over the short time span of the last three years - Moldova transitioning from the group of countries with a low share of foreign banks, 26% in 2016, to a banking sector predominantly controlled by European investors at the end of 2019 – 93%. Reputable recent entrants to the market include Banca Transilvania (Romania), Intesa San Paolo (Italy), OTP (Hungary), as well as EBRD and a number of regional financial investors.

At the end of April 2020, banking sector assets amounted to MDL 92.3 billion (EUR 4.8 billion) or 43.9% of the country's GDP.

The financial situation of Moldova's banking sector is stable. Banks are very well capitalized. As of the end of April 2020, the total capital ratio represents 25.1% on aggregate level, ranging from 19% to 48% at individual level (required >10%). The respective amount of capital ensures an adequate level of resilience against the projected COVID-19 impact on the national economy (-3% GDP growth for 2020 according to IMF forecast). Furthermore, banks maintain high liquidity, on aggregate level 50.5% of total assets on banks' balance sheets are liquid assets. However, considering recent developments and in order to prevent any liquidity risks, the NBM decided to further decrease the required reserve ratio in MDL and non-convertible currencies down to 34%. The profitability indicators remain high (ROE –10.10%, ROA –2.3%) and have not suffered very significant changes during the period of emergency state regarding the COVID-19.

Assets and deposits have continued to increase steadily year by year. The banks' credit activity has been recovering after the 2015-2018 credit crunch with the loan portfolio recording monthly increases starting with March 2018 (amounting to about 44.8% of the total banking assets as of April 2020), but mainly in consumer lending and mortgages (respectively with 16.6% and 16.0% in the loan portfolio structure as of April 2020). The low lending to real sector is due to weak demand from business and absence of viable investment projects. For these reasons, the majority of banks deposits are invested in liquid assets (government bonds, NBM certificates, in accounts at NBM, cash). Still the National Bank of Moldova continue to encourage banks to

play a leading role for financing the real economy, particularly SMEs, productive sectors and innovations.

The non-performing loans (NPL's) are fully recognized on the banks' balance sheets and covered by a high ratio of provisions. The level of NPLs is steadily decreasing (from 18.4% as of December 2017, to 8.3% as of April 2020) due to both reduction in absolute amount and increase of the total loan portfolio. To be mentioned that during the period of state of emergency regarding COVID-19, the level of NPL's remained unchanged as of mid-May, mainly due to the NBM decision to allow flexibility for banks in managing loans with payments due in the respective period. Thus, the change in the aforementioned deadlines will not have the effect of automatic classification of these loans into a tougher category than the existing one, as of the date of adoption of this decision.

Considering that capital is the main source of covering potential losses, the NBM requested banks to adopt a more prudent and forward-looking policy for dividend distribution (majority of banks redirected profit of last three years for strengthening capital). The high capitalisation allowed banks to provide high level of provision coverage for NPL's, to absorb materialized losses, and to invest in Basel III implementation.

Deposits in the banking sector continue to increase (on 30 April 2020, amounting to MDL 69.9 billion or EUR 3.6 billion). Deposits of individuals accounted for 67.4% of deposits, and of legal entities –32.6%.

The share of financial intermediation in local currency increased, representing around 67% for loans and 56% for deposits.

#### Non-bank credit institutions

The non-bank credit sector in the Republic of Moldova is comprised of two types of institutions: the savings and credit associations (SCAs) and non-bank credit organisations ((NBCOs – companies which carry out non-bank lending activities and financial leasing). Together they constitute 11.5 percent of the financial sector assets (2019), but the NBCOs assets are far larger and their share is 10.5 percent of the financial sector assets. Following re-registering process (according to the Law no.1/2018 on Non-Bank Credit Organizations) in the NBCOs Registry are registered 165 organizations. The total assets exceeding MDL 10.7 billion, of which MDL 9.4 billion are granted loans. The significant share of loans provided by NBCOs (2019) is determined by the incorporation of financial leasing in the reported statistics which accounted 16 % of total non-bank lending activities. Accordingly, the share of this segment in the lending activity of the financial sector as a whole is below 19% (2019) or 4.5% in relation to GDP (2019).

The SCAs comply with prudential regulation and NCFM supervises their activities to ensure compliance with the prudential norms. Following international recommendations and under new Law on NBCOs (no.1 of 16.03.2018, in force since 01.10.2018) the NBCOs are regulated and supervised by the National Commission for Financial Markets. 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 NBOs 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 non-bank credit 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.

The whole non-bank credit sector is vulnerable to COVID-19 pandemic, while the greatest impact is expected to the loan portfolios as many borrowers may face sharp collapse in income and difficulty in repaying debt obligations. The NBCOs which are mostly in the consumer lending, may experience funding difficulties coupled with higher credit risk. The impact on SCAs is anticipated to be considerable, affecting liquidity and solvency.

In order to mitigate the impact of the COVID-19 shock, NCFM has taken certain measures, including: (i) postponing quarterly payments of regulatory fees; (ii) encouraging NBCOs and SCAs to lower effective annual interest rates and refrain from application of penalties and applying payment facilities for the existing loans, (iii) enhance NBCOs and SCAs to renegotiate/prolong loans agreement of the debtors that face problems due to the pandemic situation. These measures are to be applied individually and selectively by the non-bank credit organizations, considering their own capacities and the need to ensure prudent management of the related risks.

### Insurance

The insurance market in Moldova is one of the smallest in Europe amounting to EUR 84,4 million of written premiums per year (2019). Despite the growth in the volume of insurance premiums, the insurance market remains underdeveloped. It is highly concentrated on non-life (general) insurance segment which constitute 93.8% of the total Gross Written Premiums, while life insurance segment is 6.2%. The non-life insurance sector is dominated by the motor insurance segment (internal and external), which represented 67.4% of the total Gross Written Premiums of the sector; followed by goods and property insurance, which accounts for about 13.5% 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. Following the implementation by

NCFM of an extended procedure for the identification of ultimate beneficiary owners of qualified holdings in insurance companies (conditionality no.12 of the EU-RM Memorandum of Understanding for Macroeconomic Assistance), all insurance undertakings have disclosed the information and data about shareholders' structure on their official web pages. 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 (0.77% in 2019) is a much lower indicator than in the European countries. It shows that the growth rate of GDP was higher than the increase of insurance market which still has untapped potential. 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.

Taking into account the direct negative impact of COVID-19 on the Moldovan economy, it is expected that the insurance sector will be significantly affected. Monitoring, containing and mitigating the effects of COVID-19 will be top priorities of NCFM in order to limit the economic fallout and maintain financial stability.

NCFM has already taken several measures in response to COVID-19 outbreak including;

- Increasing the time to repay debt from brokers;
- Increasing cash limit from 10 to 20 %;
- Postponing more stringent technical reserve coverage;
- Postponing the payment of supervisory fees by insurance companies;
- Adjusting internal regulations concerning the establishment and handling of damages to encourage the use of IT technologies, electronic payments, distance working and other options in order to limit/exclude physical contact;

#### Financial market infrastructures

The National Payments System (NPS) in Moldova is fairly well developed. Since the independence of the Republic of Moldova in 1991, the NBM has been leading the efforts for the modernization of the financial market infrastructure. The NPS consists of the Automated Interbank Payments System (AIPS) and Single Central Securities Depository (CSD).

Payment and securities settlement activities are regulated by two regulatory authorities. The NBM licenses banks and issue authorisation for CSD. The stock exchanges, brokers and other investment companies are regulated, licensed and monitored by the National Commission of Financial Markets (NCFM) under the Securities Market Law.

Automated Interbank Payments System (AIPS) is the only interbank payment system in the country. The AIPS has two components: the Real Time Gross Settlement (RTGS) system for large-value and time-critical payments, and the Designated-time Net Settlement (DNS) system for low value (retail) payments. Both components operate in domestic currency – the Moldovan Leu (MDL). In 2018, the AIPS settled 12.9 million payments. The payments value reached MDL 1193.2 billion (about EUR 60.13 billion) at the end of 2018. In 2018, the RTGS system accounted for about 9 percent of the total volume and 95 percent of the total value of transactions in the AIPS. The AIPS is owned and operated by the NBM. It started operations in 2006 and allows participants to transfer funds between themselves, on its own account or on

behalf of clients, in real time on a safe and secure basis. Transactions are settled in the accounts of the participants that are maintained with the NBM. Only banks, the State Treasury within the Ministry of Finance (MOF), CSD, Deposit Guarantee Fund in the Banking System, and Tiraspol Settlement Centre have access to AIPS. Nonbank payment service providers (PSP) will have access to AIPS from 01.09.2019.

#### The securities settlement system

The Single CSD is a system for registration, safekeeping and settlement of securities issued by the Government, NBM and Moldovan entities. The system is operated by the CSD entity. It is linked in real time with the AIPS and supports ILF (Intra-day liquidity facility) for the AIPS participant banks. Government securities, NBM certificates and corporate securities are issued in a dematerialized form and are processed at the CSD in book-entry form. Credit risk in the CSD is mitigated by the settlement of the payment leg of the securities transitions in the AIPS system on DVP (delivery versus payment) basis, model 1 and 2. The CSD started its full operations in May 2019.

#### Retail payment systems

The Designated-time Net Settlement (DNS) system is the clearing system for MDL-denominated credit transfers of low value. It settles two times a day multilateral net obligations of the participants in the RTGS system. Access to the DNS component of the AIPS is the same as the access to the RTGS component.

Banks offer debit and credit payment cards. All banks provide internet/mobile banking services to their clients. From 2013, under the local Payment services law, non-bank PSP started to operate in local market, introducing innovative payment instruments, such as e-wallets and mobile payments in Moldova.

Cash continues to dominate payments in Moldova, particularly for payments among individuals, despite the introduction of more advanced payment instruments. Payment cards, for example, are used in domestic transactions mostly for cash withdrawals (83% of value) from Automated Teller Machines (ATMs). Credit transfers are the major payment instruments for non-cash payments and among legal entities. Checks are not used in the NPS.

Banks dominate the payments market in Moldova. Banks offer credit and debit transfers for large-value and retail payments through the AIPS, cash withdrawal and bill payments with credit and debit cards through ATM and Point-Of-Sale (POS) terminals, and internet/mobile banking. International Money Transfer Operators (MTOs), such as MoneyGram and Western Union, are active in Moldova, in particular for inbound remittances, which accounted for 16.25 percent of the GDP in 2018. 5 International MTOs use banks and Posta Moldova (state postal service) as agents for receiving and sending remittance payments and for cash-out and cash-in services. As of July 2019, there are 11 banks and 7 non-bank PSPs in Moldova.

Additionally, under commitments of the Republic of Moldova assumed within the provisions of the Association Agreement concluded in 2014 between RM and EU, on 22.07.2016 was approved the Law No. 183 on the finality of settlement in payment and settlement systems of financial instruments (hereinafter - Law 183/2016), which transposes EU Directive 98/26 / EC of 19 May 1998 on settlement finality in payment and securities settlement systems. According to this Law no. 183/2016, the NBM designates the systems defined according to the provisions

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<sup>5</sup> Source: 2018, World Bank

of the law concerned and maintains and updates on its official website the register of designated systems. Thus, by Decision of the Executive Board of the NBM, the following were designated as systems falling under the provisions of Law no. 183/2016:

- (a) the automated interbank payment system (SAPI), owned and managed by NBM;
- (b) the Single Securities Central Depository (CSD), securities settlement system, which is managed by Single SCD.

### 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 has been upgraded from the Basel I-compliant regime to Basel III. The new Law on banking activity no. 202 as of October 6, 2017 entered into force on January 1, 2018 and has brought the Moldovan supervisory framework in line with Basel III principles and the EU Capital Requirements Directives (CRDIV/CRR). During 2018 and first semester of 2019, the cornerstone set of normative acts related to own funds requirements, credit/market/ operational and settlement risks, capital buffers, COREP instruction, requirements for management body and key function holders, internal governance and risk management, large exposures has been approved.

Another set of normative acts on counterparty credit risk, credit valuation adjustment risk, supervision on a consolidated basis and LCR was approved in 2020.

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).

One of the actions, in terms of legal framework, undertaken towards the preservation of the stability and integrity of the local financial system was the approval of the Law on National Committee for Financial Stability (NCFS) on October 12, 2018. The law sets up a designated national macro-prudential authority, responsible for the coordination of macro-prudential policy realization, as well as for coordination of the activities for systemic crisis prevention and remediation. Members of the NCFS are heads of the main institutions, responsible for financial system: National Bank of Moldova, Ministry of Finance, Ministry of Economy and Infrastructure, National Commission for Financial Market and Deposit Guarantee Fund.

As a response to the adverse evolutions caused by the COVID-19 pandemic and in order to sustain banking activity, the Executive Board of National Bank of Moldova approved the decision that temporarily allows banks to use the amount of Own Funds held in order to meet the Capital Conservation Buffer. Furthermore, the Executive Board of the National Bank of Moldova approved unanimously, in an extraordinary meeting, a decision by which it

recommends the licensed banks to refrain from distributing dividends to shareholders and other forms of capital distribution, at least until 30 September 2020.

Also, in order to support individuals and legal entities that have been temporarily affected due to the state of emergency and the economic consequences generated by COVID-19, the Executive Board of the National Bank of Moldova has approved a set of decisions that allow licensed banks to postpone or change the payment deadlines and/or the amounts of due payments on loans granted to economic agents until 30 June 2020 and manage flexibly the payment obligations of individuals in difficulty to pay their contracted loans under the conditions of state of emergency until 31 May 2020.

#### Non-banking sector and insurance

Current legal framework regulating the activity on the insurance and non-bank credit 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 non-bank credit organizations nr.1 of 16.03.2018

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 non-bank credit sector.

The amendments to the insurance legislation approved during the last 4 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.

In the last period was strengthened the legal framework regarding the liquidity, solvency and technical reserves of the insurance companies. In September 2019 was put into operation the Amicable Accident Settlement Report for the car accident - that is a solution for the settlement of facts, circumstances and the person responsible for the accident, as an alternative to the procedure used by police officers, fire service and the Prosecutor's Office, and is only applicable subject to the voluntary will of the parties to apply it.

Along with the enforcement of the new Law on non-bank credit organizations (nr. 1/2018) a minimum initial framework for an authentic regulation and supervision of NBCOs was established. By this law a new approach regarding the approval/registration process of these entities was imposed, including the regulatory conditions for access to non-bank credit activity, establishing the legal status and peculiarities for the activity of NBCOs. To note are the recent

set of amendments to the Law on non-bank credit organizations (en force from 20/04/2020), which: (i) prohibit NBCOs from accepting deposits from public, (ii) oblige NBCOs to report the new credits activity to the credit bureaus, (iii) introduce limits on total costs of consumer credits, and (iv) introduce an effective, proportionate and dissuasive sanctioning regime.

### Financial market infrastructures

According to the Law on NBM, among the NBM basic tasks are:

- to constitute, license, operate, regulate and supervise the financial market infrastructures, under the conditions established by law, and promote their stable and efficient operation;
- to license, regulate and supervise the activity of providing payment services and the issuance of electronic currency.

Regulation and supervision of CSD is performed by NBM in accordance with the Law on NBM (art. 49<sup>2</sup>) and Law on CSD.

Regulation and supervision of activity of PSP is performed by NBM in accordance with the Law on Payment Services and Electronic Money No. 114 of 18.05.2012 (a local law, harmonised to EU Payment services Directive and EMD2)

In order to put in application the provisions of the mentioned laws, a secondary framework of regulations has been developed and adopted by NBM.

### 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 some financial sector entities<sup>6</sup>, 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.

After the 2014-2015 banking crisis, according to the amendments to the Law on the National Bank of Moldova adopted in April 2016, the independence of the NBM and its ability to take supervisory actions with stronger enforcement power has been fortified, the legal protection of the NBM employees has been increased, the potential interference in the central bank's regulatory domain has been limited. A modern two-layer governance structure was implemented in the NBM: Executive Committee (5 executive members) and Supervision Board (with 4 out of 7 members appointed as independent non-executive directors).

The NBM aims at further increasing the effectiveness of its supervisory activities in line with EU and Basel III rules. The standardised supervision approach is replaced by the risk-based, forward looking and judgement base approach. In this regard, the improved banking supervision mechanisms and instruments for on-site/ off-site supervision of banks and tools under Basel III requirements have been developed and are applied starting with the current year.

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<sup>6</sup> NBM is providing licenses and supervise the following institutions: banks, payment institutions/postal operators, electronic money institutions, foreign exchange entities.

The NBM overall staff is 492 persons. The following Departments will be involved in the project activities:

Financial Stability Division (FSD) is responsible for macroprudential supervision of the banking sector and has 7 employees. As a separate division, it was established in February 1, 2017 (previously macroprudential function was conducted by a section within Banking Supervision Department). At this moment, from the perspective of macroprudential supervision system-wide stress tests are used. At the same time, some studies for internal usage purpose were developed (study for systemically important institutions' identification, early warning study, interconnectedness of banking sector and financial stress indicator). FSD also makes all necessary calculations and advances proposals for setting capital buffers' rates.

The Payment Systems Department (PSD) is responsible for:

- regulation, licensing and development of payment systems and provision of payment services;
- supervision of PSP (banks and nonbanks);
- oversight of financial market infrastructures, payment instruments and retail payment systems and services;
- regulation, oversight and supervision of CSD.

PSD comprises 3 subdivisions and has 27 employees. At this moment, the following major achievements can be listed:

- harmonisation to EU legal framework on payment services: PSD and EMD2;
- regulation on capping the interchange fees for some card-based payment transactions;
- creation of the Single CSD and development of appropriate regulation on CSD.

#### 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, non-bank credit organisations, 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 and two members.

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 31.12.2018 is 92 employees. The Departments which will be involved in the twinning project are the following:

Insurance Department (GID), 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. GID has 22 employees and includes the Division for insurance regulation and authorization, the Division for analysis and actuarial function and Division for insurance supervision and Petitions Unit. Recently NCFM has completed the selection and appointment of the necessary staff in the GID and following this, the Department became fully operational.

The main tasks of the GID 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/or approved:

- new draft Law on insurance and reinsurance activity, developed by NCFM with the support of World Bank experts in order to transpose into the national legislation the European supervisory framework, specifically the provisions of EU Directive no.2009/138 as of 25.11.2009 regarding the access to the activity and the conduct of the insurance and reinsurance activity (Solvency II). The new draft law aims at strengthening the insurance sector and setting up the main pillars for the implementation of the Solvency II regime (implementation of the internal governance and risk management requirements by the insurers, the strengthening of the NCFM staff's capacities for assessing governance and risks, etc.). The draft law was published on the Government platform for examination and approval;
- new draft Law on compulsory motor third party liability insurance, developed by NCFM with the support of World Bank experts in order to transpose into the national legislation the European supervisory framework, specifically the provisions of EU Directive no.2009/103 as 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. The draft law is in the process of examination and public consultations;
- regulation on insurance audit, which establishes the regulatory framework for the requirements for the audit entity, the approval and withdrawal of the approval of the audit entity, the carrying out of external audit of the insurers (reinsurers),

including audit of financial statements and audit for supervisory purposes, documentation and communication between the audit entity, the insurer (reinsurer) and the National Commission of the Financial Market, as well as the requirements regarding the audit reports;

- amendments to regulation on technical insurance reserves, changes made in the context of recognition and accounting in the cases where the insurance contract provides for the collection of premiums and the payment of compensation in foreign currency, also in the context of the actuary's obligation to determine the amount of technical provisions involving actuarial calculations under the conditions of presentation by the insurer of the documents and of the information required by the actuary needed in the development and preparation of the mandatory actuarial calculations and the conclusions, and the insurer's obligation to assume responsibility for the veracity of the provided information;
- regulation on actuarial report of insurer, which establishes the structure, content, disclosed information, way of filling in, approval and submission the annual actuarial report of the insurer (reinsurer) and aims to regulate the opinion of the actuary regarding the technical reserves, solvency, and the reconciliation of insurance premiums by disclosing the information;
- regulation on insurance market licensing;
- 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;
- regulation on the requirements regarding the persons holding key positions of insurers / reinsurers and insurance intermediaries (no.17 / 3 of 22.04.2019) which establishes the "fit-and-proper" standards for the shareholders of the insurance companies, the members of the board and the governing bodies, the criteria for evaluating the qualification, experience, professional integrity and good reputation for the persons appointed in key positions, as well as the norms regarding the incompatibilities and restrictions in the activity for persons holding key positions in the insurance/reinsurance undertakings;
- regulation regarding the Register of insurance agents and bancassurance agents (no.21 / 3 of 27.05.2019) which aims to regulate the registration process of intermediaries by the supervisory authority and establishes the conditions, terms, mode and procedure of registration in the Register of insurance and bancassurance agents, which is an information system containing all the official data about

insurance and bancassurance agents, who practice professional activity in the insurance market;

- regulation on the accounting principles and the individual and consolidated financial statements of the entities that carry out the insurance and / or reinsurance activity (no.55 / 7 of 18.11.2019) which aims to align the secondary normative framework in insurance with the European norms regarding the annual financial statements and the consolidated financial statements of the insurance companies, as well as the related reports of certain types of companies.

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);
- in order to reduce the persistent risks and anticipate the insolvency of certain insurers, NCFM has consistently, on a case-by-case basis, resorted to the application of early intervention measures to some companies using additional financial instruments: financial recovery / remediation and special administration;
- establishing conditions for the holding of qualified holdings in the insurer's share capital; NCFM approved the Action Plan and its related Program regarding the identification of the ultimate beneficiaries of the qualified holdings in insurance companies. As result, all insurance (reinsurance) companies have ensured the disclosure of information regarding the UBOs on their own web pages.
- strengthening the rules on licensing of insurance and insurance intermediation and / or reinsurance mediation activities by approving and enforcing the Regulation on Register of insurance agents and bancassurance agents.

Non-Bank Credit Department, which is responsible for regulation and supervision of the non-bank credit organizations, savings and credit associations, pension funds and UCITS, has 16 employees.

The main tasks of the NBCD are: regulation, authorization and supervision of the activity of UCITS, assets managers, savings and loan associations, non-bank credit 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.

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

- the Law on non-banking credit organisations (no.1/2018) provides for a common regulatory and supervisory framework for entities carrying out the following activities: lending, including microcredits and mortgages, , financial leasing and aims at ensuring the sustainable development of the NBCO sector by reducing systemic risks and protecting consumers rights;
- Amendments to the Law on non-bank credit organizations (no. 23/2020), en-force from 20/04/2020, had been adopted that aims to strengthen financial stability of the sector, promote consumer protection and responsible lending practices and mitigate household indebtedness risks.

- With the technical assistance support for NCFM, a database system for the storage, consolidation, analysis and monitoring of financial data of the NBCO sector (SCAs and NBCOs) was created. Additionally, the analytical information module for risk-based supervision with early warning indicators for the SCAs sector has been developed and is at the testing stage. The NBCOs reporting system was extended with possibilities to extract and analyze data related to effective beneficiaries (UBOs, founders / associates etc.). These IT achievements will allow real-time monitoring of potential risks determined by registered performance indicators, as well as will allow the efficient identification and analysis of beneficial owners as an additional element to reduce the risk of money laundering;;
- In order to ensure the proper enforcement of the new Law on non-bank credit organizations, the NCFM has drafted and approved 3 regulations: Regulation on the approval and registration of non-bank credit organizations in the Register of authorized non-bank credit organizations, Regulation on the transparency of the ownership structure of the non-bank credit organization and the Regulation on the classification of loans and loan loss provisioning for non-bank credit organizations.
- By the amendments operated to the Law on Savings and Credit Associations (no. 139/2007) was performed 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.
- By other set of amendments operated to the Law on Savings and Credit Associations (no. 139/2007), since mid-2019, all SCAs are organized under a single central association.

### 3.2 Ongoing reforms:

#### Banking sector

Following to the 2014 banking crisis the NBM has put in place a very comprehensive reform program for rebuilding the stability, soundness and credibility of the local banking sector.

Several financing programmes agreed and launched along with the main external partners of the Republic of Moldova (IMF programme, EU MFA, World Bank DPO) underpinned the reform agenda.

The reforms were primarily aimed at addressing systemic issues of the banking sector: opaque shareholders' structure, deficient risk management and lending practices, weak corporate governance and low management and shareholders' accountability, insufficient supervisory powers of the regulator. At the same time, considerable efforts were dedicated to create a modern and efficient regulatory and supervisory framework in line with international and EU standards, by harmonizing Moldova's banking legislation to the EU acts and international principles (Basel III).

Following a Twinning project conducted in 2015-2017, a new regulatory and supervision framework was prepared, adopting Basel III requirements for the entire banking sector. A new Law on banks' activity no. 202/2017 was adopted, and entered into force on January 1, 2018. Following the Law, the cornerstone set of secondary regulations have been approved, according

to which the new capital adequacy requirements in line with the EU's CRDIV/CRR package have been legally enforced. Another set of regulations related to counterparty credit risk, credit valuation adjustment risk, supervision on a consolidated basis and LCR, was approved in 2020. Also, in 2020, it is planned drafting the normative acts on leverage and IRB approach for credit and market risk with implementation in 2021 and 2023 respectively.

The European Banking Authority has positively assessed Moldovan confidentiality regime for banking supervision as equivalent to EU requirements. This has allowed the NBM to join the Memorandum for South-Eastern European banking supervisors. Negotiations of a supervision Memorandum have started with the European Central Bank/Single Supervisory Mechanism, to be followed up by memoranda with national supervisory authorities from countries of origin of strategic bank investors (Romania, Germany, Italy, and Hungary).

At the same time in order to adjust its supervisory powers to the provisions of the new banking framework, the NBM approved other two important pieces of regulations: Regulation on internal governance, ICAAP and SREP Methodology (based on EBA Guidelines on common procedures and methodology for SREP (2014)).

Thus, starting with June 2019, the NBM is carrying out the first SREP for all banks. It is a very complex process, requiring knowledge for deep assessment of bank's internal governance&risk management, business model, material risks profile and control, stress testing, calculating additional capital for risks, and application of enforcement and supervisory measures.

Although, the NBM will have all regulations in place, and the NBM staff has gained significant theoretical knowledge about the Basel II/III framework and conducting SREP, it is imperative to receive consultative support focused on practical aspects of this comprehensive supervisory process. In this context, the EU support is needed in order to ensure an adequate supervisory process of Moldovan banks according to the new regulatory framework and in line with the European rules and best practices in this area.

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, an IT solution designated to improve efficiency of the licencing, authorisation and notification process has been developed and is being implemented. As regarding the third component - AML/CFT and Shareholders Transparency software, it is to be mentioned that USAID will assist the NBM in the acquisition and implementation process.

In this regard further sharing of EU best practices in increasing the use of IT tools in supervision (for RAS/SREP/on-going supervision) is needed.

Starting with July 2018, the NBM implemented a new remuneration system with salary scales based on job evaluation and aligned to reference market data. The NBM realized this project together with Korn Ferry Hay Group, an international company with significant experience in setting HR systems in central banks and international financial institutions. As a result, the salaries of NBM's employees were increased in order to be aligned to the reference market and NBM became a competitive employer. Long term expected results of this project are internal equity of jobs and wages, external competitiveness of wages, personnel adequacy, high-level qualification of personnel, improved business continuity, enhanced credibility and image, improved organizational climate and grown employee loyalty.

At the same time, according to the provisions of the Law on banks' recovery and resolution, a national macroprudential authority was established. The Law on National Financial Stability

Committee entered into force starting from December 16, 2018. The newly established authority will coordinate macroprudential policy as well as crisis preparedness and management. When establishing the macroprudential mandate, the European Systemic Risk Board (ESRB) recommendation on macro-prudential mandate of national authorities (ESRB/2011/3) was taken into account. Due to limited local experience in macroprudential policy area, as well as considering the importance of financial stability objective, international experience is helpful when setting the macroprudential strategy and preparing all procedures for proper application of macro-prudential 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, a new insurance and MTPL insurance legislation partially compliant with Directive 2009/138/EC of 25.11.2009 on the establishment and performance of insurance and reinsurance activities (Solvency II) is currently being developed with the support of the World Bank experts.

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

The new Law on non-banking credit organizations and the Law amending the legislation by delegating NCFM supervisory powers over leasing sector establish 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.

In order to anticipate any risks, with the aim of increasing prudence and following the recommendations of the International Monetary Fund and of the Delegation of the European Union to the Republic of Moldova and the necessity to strengthen the capacity of the NCFM in the field of regulation and supervision of the non-bank credit sector, the NCFM has developed the draft Law amending certain legislative acts, which operates conceptual amendments to the Law no. 1/2018 on non-bank credit organizations, the Law on credit history bureaus no.122/2008 and other related legislative acts. The draft law aims to reduce the risk of over-indebtedness of the population and abusive practices in the crediting process, as well as certain technical amendments to other legal acts which derive from the necessity to provide a unitary legal framework regarding the notion of „non-bank credit organization”.

The conceptual amendments to the Law no. 1/2018 on non-bank credit organizations refer to:

- increase of the minimum social capital to 1,000,000 lei starting with January 1<sup>st</sup>, 2021;
- capping of interest and other payments / commissions / penalties on loans up to 2 years (regardless of the amount), so that their total does not exceed 100% in relation to the principal amount;
- applying restrictions to the total costs of loans up to 50 thousand lei - it is forbidden to make any subsequent amendments regarding the contractual clauses, which in effect lead to the increase of the pecuniary obligations;

- in case of delinquent loans (30 days), the entities will not have the right to extend the contracts in value up to 50 thousand lei, which in effect increases the total pecuniary obligation thereof, until the obligation to repay the current non-bank credit is extinguished and the expiry of at least 10 working days from this action.
- within the meaning of the express prohibition of attracting repayable funds from the public, the draft provides a new notion - *subordinated loan*, which is accepted as another source of financing the credit activity of the non-bank credit organisation and is allowed to be granted only by the holders in the amount of at least 600 thousand lei (and more).

The Law amending some legislative acts no. 23/2020 was approved by the Parliament on 27.02.2020.

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 was approved by NCFM Council of Administration and submitted to interested stakeholders for examination and public consultations.

In order to protect the population from rural areas in case of a failure of SCAs and to contribute to the stability of the financial system, the legal provisions establishing a deposit guarantee scheme for the SCA sector is being prepared as part of the draft Law on guaranteeing the deposits in banks and SCAs operating in the Republic of Moldova.

### Financial market infrastructures

A Central Securities Depository (CSD) representing the only institution in Moldova responsible to keep record, deposit and provide settlement of state and corporate securities, has been established and started its activity in July 2018. Initially it ensured the clearing and settlement of state securities and certificates of the NBM. CSD became fully functional in May 2019 when it started operations with corporate securities. The CSD is designed to support increased investments in the local capital market and develop new financial instruments. At the same time, through the establishment of the new CSD, consolidated oversight of the post-trade infrastructures is achieved, in a framework of improved transparency and financial safety.

The evolution of the Moldovan financial market infrastructures and the development of various payment instruments pose the necessity for the NBM to have in place an adequate internal oversight framework and tools developed according the EU standards and best practices, thus, enhancing the safety of payment and settlement systems.

### 3.3 Linked activities:

#### Banking sector

In 2017, the 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.

In the period of February 15, 2016 until December 31, 2018, the EU High Level Adviser (HLA) on banking sector provided 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 was also provided.

In the period of January - June 2019, the EU HLA continued to provide policy advice within the framework of the new EU High-Level Advisers Mission in the Republic of Moldova. The EU HLA offered policy advice to the NBM in the field of banking supervision, effective communication and facilitating cooperation with other local and international authorities. At the same time, the EU HLA assisted the National Commission for Financial Markets in building-up capacities in the non-banking sector supervision and implementing the recommendations of the National Committee for Financial Stability. Beginning of October 2019, a new EU HLA was appointed and began his activity at the NBM. Starting from October 2019, an EU Senior Mid-Term Expert on Banking Supervision is providing assistance to the NBM for a period of 9 months, under the European Union High Level Advisers' Mission for 2019 – 2021. The overall objective of the assistance is to support the NBM to transpose international standards and best practices in the field of banking supervision and in particular, to assist the NBM in developing the capacities required for the elaboration of the reports following the Supervisory Review and Evaluation Process (SREP). Specifically, the project aims at strengthening the banking supervisors' knowledge on performing a qualitative SREP exercise. Specific advice is given concerning the structure and the content of the SREP reports, in order to ensure their effective elaboration.

In 2019, the NBM benefited from several EU TAEIX projects of technical assistance in the form of expert missions with the aim to assist the NBM's supervisors in conducting the first Supervisory Review and Evaluation Process (SREP) and in the form of study visits in the field of macroprudential policy instruments and macroprudential top-down stress testing of the banking system.

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.

Moreover, the NBM periodically receives technical assistance from IMF/World Bank in various central banking areas.

The National Bank has also received support from the Treasury Department of the United States, and from the UK Good Governance Fund on certain aspects of banking regulation, supervision and resolution, and macroprudential framework.

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.

### Financial market infrastructure

The creation of Single CSD, which is one of the key reforms of the Moldovan financial market, was assisted within IMF program, and supported by USAID. The new mechanism of accounting and settlement, provided by the CSD, is aimed at ensuring high level of transparency, security and efficiency at conducting transactions with securities. The depository's activity is grounded on international standards and practices in the field of settlement systems, while the national legislation on the Single CSD implies the EU regulations.

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

For the banking sector: Capital Requirements Directive (CRDIV/CRR Package), 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.

For payment services sector:

Directives:

Directive 2007/64/EC on payment services in the internal market; Directive (EU) 2015/2366 on payment services in the internal market; Directive 2009/110/EC on the taking up, pursuit

and prudential supervision of the business of electronic money institutions; Directive 98/26/EC of 19 May 1998 on settlement finality in payment and securities settlement systems.

RTS/Guides:

Regulatory Technical Standards on strong customer authentication and secure communication under PSD2;

Guidelines on the conditions to be met to benefit from an exemption from contingency measures under Article 33(6) of Regulation (EU) 2018/389 (RTS on SCA & CSC);

Regulatory Technical Standards on passporting under PSD2;

Guidelines on authorisation and registration under PSD2;

Guidelines on major incidents reporting under PSD2;

Guidelines on procedures for complaints of alleged infringements of the PSD2;

Guidelines on security measures for operational and security risks under the PSD2;

Regulatory Technical Standards on central contact points under PSD2;

Guidelines on the criteria on how to stipulate the minimum monetary amount of the professional indemnity insurance under PSD2;

Technical Standards on the EBA Register under PSD2.

### 3.5 Components and results per component

**Mandatory Result 1/ Component 1:** The macro prudential framework enhanced through improved capacities of the regulators to mitigate a build-up of systemic risks

In the context of Result 1 the following sub-results will be achieved:

Sub-result 1.1 A Macroprudential Policy Strategy is developed and approved.

Sub-result 1.2 Increased number of macroprudential tools available for National Bank's application and/or number of publications on the implementation of macroprudential policy.

Sub-result 1.3 Macroprudential stress-tests that take into account second-round effects stemming from interactions between bank-specific and macroeconomic variables are developed.

Sub-result 1.4 The quality of Annual Financial Stability Reports is improved, ensuring that:

- its content reflects the developed Macroprudential Policy Strategy;
- it contains larger analysis on the interaction of the banking sector with other sectors impacting financial stability.

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.

**Mandatory Result 2/ Component 2: New legal framework 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 2 the following sub-results will be achieved:

Sub-result 2.1 New draft primary legislation on insurance assessed regarding the compliance with EU Solvency II Directive and related framework;

Sub-result 2.2 New draft primary legislation on mandatory motor third party liability insurance assessed regarding the compliance with EU Motor Insurance Directive;

Sub-result 2.3 New secondary legal framework on supervision of insurance sector and on third party liability motor insurance aligned to EU acquis is developed and approved;

Sub-result 2.4 All relevant employees responsible for insurance licensing, authorisation and supervision are capacitated to effectively enforce the new regulatory framework;

Sub-result 2.5 Assistance to NCFM in activities related to external audit in insurance undertakings including regulating, supervising and following-up conclusions of the audit report;

Sub-result 2.6 Risk matrixes per each insurance company and per sector as a whole developed and enforced;

Sub-result 2.7 Solvency and Minimum Capital Requirements (SCR and MCR) enforced and reported to NCFM by all insurers;

Sub-result 2.8 Stress testing regime implemented by all insurers.

Finally, Moldova should ensure that any measures that impact on pricing of insurance products are proportionate and compatible with the EU law as interpreted by the CJEU.

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.

**Mandatory Result 3/ Component 3: A new legal framework strengthening supervision of non-bank credit organisations (NBCOs) is developed and enforced.**

In the context of Result 3 the following sub-results will be achieved:

Sub-result 3.1 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;
- Methodology of calculation of over-indebtedness index of population, assessment and mitigating measures formulated;
- Off-site supervision. Monitoring risk-based supervision indicators to be applied.

- Portfolio at risk indicator for non-bank credit organisations assessed and monitored;
- Increased accuracy and quality of financial data reported by the operators.

Sub-result 3.2 Internal procedures for "fit and proper" criteria for administrators of non-bank credit institutions are developed and implemented;

Sub-result 3.3 All relevant employees are capacitated to effectively enforce the new regulatory framework;

Sub-result 3.4 Recommendations based on European practices regarding competences for consumer protection;

Sub-result 3.5 Guidelines for on-site inspections and off-site risk based supervision to NBCO'S with the focus on AML/CFT.

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.

**Mandatory Result 4/ Component 4: NBM internal regulations on oversight activities revised, developed and enhanced.**

In the context of Result 4, the following sub-results will be achieved:

- Sub-result 4.1 New internal regulations on oversight for financial market infrastructures (FMI) and payment services, aligned to international best practices and EU acquis are developed and approved;
- Sub-result 4.2 80% of employees responsible for oversight are capacitated to effectively work and properly apply the new regulatory framework;
- Sub-result 4.3 Necessary methodologies, regulatory and oversight tools under the new regulations are fully developed and enforced, including:
  - oversight of Single CSD and other FMI;
  - oversight of payment instruments (traditional and innovative), payment schemes, and payment services;

In terms of outcomes, the assistance under this component would contribute to enhancement of safety and efficiency of payment and settlement systems that is essential for the financial stability of the country.

**Mandatory Result 5/ Component 5: Moldovan legislation and regulatory framework is compliant with SEPA Schemes requirements and the application procedure as a non-EEA member is prepared.**

In the context of Result 5, the following results will be achieved:

Sub-result 5.1 A comprehensive analysis of the state of play in Moldova and the necessary steps to access SEPA is performed;

Sub-result 5.2 An Action Plan with milestones and deadlines for adhering to SEPA is established and approved by NBM;

Sub-result 5.3 The necessary legal amendments are drafted and the application file to join SEPA is prepared.

In terms of outcomes, the assistance under this component is aimed to contribute to an enhancement of Moldova – EEA’s economic relations and to a diversification and an increased coverage of financial services available in the Republic of Moldova.

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

The project will be implemented in the form of a Twinning contract between the Beneficiary Country and EU Member State(s). The implementation of the project requires one Project Leader (PL) with responsibility for the overall coordination of project activities and one Resident Twinning Adviser (RTA) to manage implementation of project activities, Component Leaders (CL) and pool of short-term experts within the limits of the budget. It is essential that the team has sufficiently broad expertise to cover all areas included in the project description.

Proposals submitted by Member State shall be concise and focused on the strategy and methodology and an indicative timetable underpinning this, the administrative model suggested, the quality of the expertise to be mobilised and clearly show the administrative structure and capacity of the Member State entities. Proposals shall be detailed enough to respond adequately to the Twinning Fiche, but are not expected to contain a fully elaborated project. They shall contain enough detail about the strategy and methodology and indicate the sequencing and mention key activities during the implementation of the project to ensure the achievement of overall and specific objectives and mandatory results/outputs.

The interested Member State(s) shall include in their proposal the CVs of the designated Project Leader (PL) and the Resident Twinning Advisor (RTA), as well as the CVs of the potentially designated Component Leaders-(CLs).

The Twinning project will be implemented by close co-operation between the partners aiming to achieve the mandatory results in sustainable manner.

The set of proposed activities will be further developed with the Twinning partners when drafting the initial work plan and successive rolling work plan every three months, keeping in mind that the final list of activities will be decided in cooperation with the Twinning partner. The components are closely inter-linked and need to be sequenced accordingly.

#### 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 8 years in the absence of the required degree;
- At least 3 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 (minimum C1 level);
- 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. In addition, he/she will coordinate, from the MS side, the Project Steering Committee (PSC), which will meet in Moldova every three months. He/ she will involve other relevant entities, taking into account on-going horizontal public administration reform efforts and sectorial activities that could have an impact on the project, and bear - together with the Beneficiary Country Project Leader - the final responsibility for an efficient and effective implementation of the Twinning project.

#### 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 be the main liaison partner for the Beneficiary, 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 will be responsible for the selection and supervision of the RTA Assistant and the management of the short-term experts input. S/he will brief, guide and support the STEs seconded to the project and participants of study visits. S/he will provide continued guidance and support in the organisation of workshops and roundtable discussions. 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 relevant equivalent professional experience of 8 years in the absence of the required degree;
- At least 3 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 (minimum C1 level);
- 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:
- Ensure visibility of EU support provided through the Twinning and establish communication strategy.

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:

For each of the five mandatory results, the Member State(s) will identify and assign Component Leader with appropriate skills and knowledge. 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 Component Leaders of each Mandatory Result will work in close collaboration with the RTA. They will report to the RTA and Project Leader and cooperate with their counterparts inside NBM and NCFM at the PSC meetings

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 of 8 years in the absence of the required degree;
- At least 3 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 of 8 years in the absence of the required degree;
- 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 (minimum C1 level).

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 2,000,000

## 5. Implementation Arrangements

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

The European Union Delegation to Moldova (EUD) will be responsible for operational management, payments and financial reporting, and will work in close cooperation with the Beneficiary.

Contact person - **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.

**National Bank of Moldova**

1 Grigore Vieru Avenue,  
MD-2005, Chisinau, Republic of Moldova  
<https://www.bnm.md>

**National Commission for Financial Markets**

MD 2012, 77, Stefan cel Mare Ave.  
Chisinau, Republic of Moldova  
Tel: +373-22-859-430  
<https://www.cnpf.md>

**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

**Iulia Ciumac**

Head of External assistance Department  
Ministry of Finance  
str. Constantin Tănase 7, mun. Chişinău  
MD-2005, Republica Moldova  
Website: <https://mf.gov.md/ro>

## 5.3.2 PL counterpart

**National Bank of Moldova****Mrs Cristina Harea**

First Deputy Governor, National Bank of Moldova  
Address: 1 Grigore Vieru ave, MD-2005, Chişinău, Moldova

## 5.3.3 RTA counterpart

**National Bank of Moldova****Mrs Aliona Străjescu**

Head of External Relations and European Integration Service, National Bank of Moldova  
Address: 1 Grigore Vieru ave, MD-2005, Chişinău, Moldova  
<https://www.bnm.md>

**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. Management and reporting**

### **7.1 Language**

The official language of the project is the one used as contract language under the instrument (English / French). All formal communications regarding the project, including interim and final reports, shall be produced in the language of the contract.

### **7.2 Project Steering Committee**

A project steering committee (PSC) shall oversee the implementation of the project. The main duties of the PSC include verification of the progress and achievements via-à-vis the mandatory results/outputs chain (from mandatory results/outputs per component to impact), ensuring good coordination among the actors, finalising the interim reports and discuss the updated work plan. Other details concerning the establishment and functioning of the PSC are described in the Twinning Manual.

### **7.3 Reporting**

All reports shall have a narrative section and a financial section. They shall include as a minimum the information detailed in section 5.5.2 (interim reports) and 5.5.3 (final report) of the Twinning Manual. Reports need to go beyond activities and inputs. Two types of reports are foreseen in the framework of Twinning: interim quarterly reports and final report. An interim quarterly report shall be presented for discussion at each meeting of the PSC. The narrative part shall primarily take stock of the progress and achievements via-à-vis the mandatory results and provide precise recommendations and corrective measures to be decided by in order to ensure the further progress.

## **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.

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 new remuneration system implemented by NBM in July 2018 will contribute to the retention of qualified employees and to a lower staff turnover. Both beneficiary institutions will implement additional HR instruments aimed to assure an adequate motivation system for trained employees to provide stable work force 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**

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.

## **10. 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.

## **11. Indicators for performance measurement**

See Annex I

## **12. 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: <b>Strengthen supervision, corporate governance and risk management in the financial sector</b>  MD 20 ENI FI 01 20 (MD/36)		Name and number of the program: <b>EU4Moldova: Facility to support the health response to the COVID-crisis and Association Agreement related Reforms</b>  <b>CRIS number: ENI/2020/042-585</b>			
		Contractual period expires at:  31/12/2020 (date is indicative, subject to the signature of FA)	Payment period expires at:  01/09/2022		
		Total Budget: EUR 2.000.000	Contribution: EUR 2.000.000		
Overall Objective	Indicators (with relevant baseline and target data)	Sources of verification	Risks	Assumptions (external to project)	
Strengthened institutional capacity for the implementation of the Association Agreement/DCFTA	Strengthened institutional capacity for the implementation of the Association Agreement/DCFTA  Baseline: qualitative assessment in 2020  Target data: qualitative assessment by the end of the project	Association Council (Government, EU reports)  Association Committee and relevant Subcommittees (Government, EU reports)  Commission reports  Shadow reports	Geopolitical tensions and less favourable economic performance hamper political stability and the Governments' actions.  Lack of commitment of the authorities to pursue the reforms in the financial sector.	The Government of Moldova remains committed and able to allocate sufficient resources to support the implementation of the AA reforms and strategies.  The beneficiary institutions are properly staffed and have the necessary absorption capacities to receive and absorb	

		EU, WB & IMF reports and NBM and NCFM Annual Reports		technical and other support.
<b>The specific objective</b>	<b>Indicators (with relevant baseline and target data)</b>	<b>Source of verification</b>		<b>Assumptions (external to project)</b>
To strengthen supervision, corporate governance and risk management in the financial sector.	Qualitative progress on the mitigation of systemic risks to financial stability Baseline: 2020 Target data: by the end of the project	WB & IMF reports and NBM and NCFM Annual Reports and qualitative assessment by the end of the project	Vested interests hamper the implementation of the reforms The beneficiary institutions are affected by political instability	The Moldovan authorities remain committed to the reforms, vested interests do not hamper the reform process
<b>Results</b>	<b>Indicators (with relevant baseline and target data)</b>	<b>Source of verification</b>	<b>Risks</b>	<b>Assumptions (external to project)</b>
Component I: 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 Baseline: No formal macroprudential policy prior to project start date Target data: by the end of the project a Macroprudential Policy Strategy is developed Increased number of macroprudential tools available for National Bank's	Publicly available macro prudential policy strategy Publicly available Annual Financial Stability Reports IMF/WB (FSAP) and other international institutions' assessments	Since NBM only has regulatory authority over banks, if the regulator for financial markets doesn't mirror policy decisions, efficiency will be limited The number of staff in the Financial Stability	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

<p>application and/or number of publications on the implementation of macroprudential policy</p> <p>Baseline - capital buffers are set as follows: CCB – once, CCyB – quarterly, OSII – annually, SRB – revised at least once in two years</p> <p>Target data: new tools are developed by the end of the project and implemented as soon as macro conditions are appropriate</p>	<p>Annual reports of NBM [2021-2023]</p> <p>Project's reports</p>	<p>unit might be insufficient to ensure timely management and analysis of the entire toolset</p> <p>Resistance of banks to comply with new macroprudential instruments</p> <p>Late implementation of new macroprudential instruments in regard to preventing systemic risks</p>
<p>Macroprudential stress-tests that take into account second-round effects stemming from interactions between bank-specific and macroeconomic variables are developed.</p> <p>Baseline: Single round macroprudential stress test based on a static model currently exists</p> <p>Target data: a new stress-testing tool to be developed by the end of the project</p>		<p>Difficulty in quantifying second round effects based on limited data</p> <p>Banks may be unwilling or unable to provide long series of historical data</p>
<p>The quality of Annual Financial Stability Reports is improved, ensuring that:</p>		<p>The report may become overencumbered and require restructuring if the volume of newly</p>

	<ul style="list-style-type: none"> <li>– its content reflects the developed Macroprudential Policy Strategy;</li> <li>– it contains larger analysis on the interaction of the banking sector with other sectors impacting financial stability;</li> </ul> <p>Baseline: The financial stability report is mostly a risk-based analysis and the content regarding the interaction of the banking sector with other sectors can be improved in view of the impact on financial stability</p> <p>Target data: macroprudential policy is reflected in the report and quantitative measures of impact of other sectors on the banking sector are developed and detailed in the report</p>		<p>added information is significant.</p>	
<p>Component II: New legal framework on supervision of insurance sector and on third party liability motor insurance aligned to EU acquis is developed and enforced</p>	<p>New draft primary legislation on insurance assessed regarding the compliance with EU Solvency II Directive and related framework;</p> <p>Baseline: no assessment of the compliance by the beginning of the project</p> <p>Target data: assessment carried out by the end of the project</p>	<p>Legislation approved and published in the Official Monitor of the RM</p> <p>Annual report of NCFM</p> <p>Qualitative assessment by the IMF/WB (FSAP) and other international institutions</p>	<p>Insufficient experience of employees in transposing EU legal framework in the national insurance legislation</p> <p>Insurance industry reluctant to change traditional market practices</p>	<p>Draft laws on insurance and third parties liability motor insurance prepared by WB by the beginning of the project</p> <p>NCFM remains committed to the reforms</p>

<p>New draft primary legislation on mandatory motor third party liability insurance assessed regarding the compliance with EU Motor Insurance Directive</p> <p>Baseline: no assessment of the compliance by the beginning of the project</p> <p>Target data: assessment carried out by the end of the project</p>
<p>New secondary legal framework on supervision of insurance sector and on third party liability motor insurance aligned to EU acquis is developed and approved;</p> <p>Baseline: no secondary legislation aligned to EU acquis by the beginning of the project</p> <p>Target data: all necessary regulations are developed and enforced by the end of the project</p>
<p>All relevant employees responsible for insurance licensing, authorisation and supervision are capacitated to effectively enforce the new regulatory framework.</p>

Project's reports

There is an appropriate involvement of the NCFM staff in project's activities

Baseline: no capacity building provided on the new regulatory framework

Target data: all relevant staff is capacitated

Assistance to NCFM in activities related to external audit in insurance undertakings including regulating, supervising and following-up conclusions of the audit report

Baseline: lack of qualified experience and no capacity building provided in activities related to external audit

Target data: all relevant staff is capacitated in reviewing and making conclusions on external audit reports

Risk matrixes per each insurance company and per sector as a whole developed and enforced

Baseline: no risk matrixes developed and used by insurance undertakings by the beginning of the project

Target data: all insurance undertakings have developed and enforced their own risk matrixes based on the template provided by NCFM

	<p>Solvency and Minimum Capital Requirements (SCR and MCR) enforced and reported to NCFM by all insurers</p> <p>Baseline: no methodologies/tools in compliance with EU practices and standards were developed and enforced</p> <p>Target data: all insurance undertakings reported to NCFM Solvency and Minimum Capital Requirements according to EU practices and standards</p>			
	<p>Stress testing regime implemented by all insurers</p> <p>Baseline: no stress tests developed and used by insurance undertakings by the beginning of the project</p> <p>Target data: all insurance undertakings have developed and applied their own stress tests and provided the results to NCFM</p>			
<p>Component III: A new legal framework strengthening supervision of non-bank credit organisations</p>	<p>Necessary methodologies, regulatory and supervisory tools under the new legal framework (primary and secondary legislation) are fully developed and enforced, including:</p>	<p>Regulations publicly available</p> <p>Over-indebtedness Index and the mitigating</p>	<p>Insufficient experience of employees in drafting specific methodologies, regulatory and supervisory tools under</p>	<p>The new law and secondary legislation on non-bank credit institutions is in force before the start of the project</p>

<p>(NBCOs) is developed and enforced</p>	<ul style="list-style-type: none"> <li>- 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;</li> <li>- Methodology of calculation of over-indebtedness index of population assessment and mitigating measures formulated</li> <li>- Off-site supervision. Monitoring risk-based supervision indicators to be applied</li> <li>- Portfolio at risk indicator for non-bank credit organisations assessed and monitored;</li> <li>- Increased accuracy and quality of financial data reported by the operators</li> </ul> <p>Baseline: certain methodologies/guidelines need to be developed and enforced; existing instruments/tools need to be improved according to the latest EU and international practices and standards).</p> <p>Target data: necessary methodologies/guidelines/tools developed and enforced by the end of the project</p> <p>Internal procedures for "fit and proper" criteria for administrators of non-bank</p>	<p>measures are published on NCFM website</p> <p>NCFM reports</p> <p>Project's reports</p> <p>Reports prepared by the IMF/WB (FSAP) and other international institutions</p>	<p>the new legal framework for NBCOs</p> <p>Market participants are reluctant to the enforcement of new supervisory guidelines/tools</p>	<p>NCFM remains committed to the reforms</p> <p>There is an appropriate involvement of the NCFM staff in project's activities</p>
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<p>credit institutions developed and implemented;</p> <p>Baseline: current procedures and methodologies need to be improved according to the latest EU and international best practices</p> <p>Target data: improved procedures approved and enforced by NBCOs by the end of project</p>
<p>All relevant employees are capacitated to effectively enforce the new regulatory framework</p> <p>Baseline: certain part of NCFM employees have some experience in regulation and supervision of NBCOs</p> <p>Target data: all relevant staff is trained and capacitated according to the EU and international standards</p>
<p>Recommendations based on European practices regarding competences for consumer protection</p> <p>Baseline: lack of experience and limited competences for consumer protection</p>

	<p>Target data: relevant staff is capacitated and competences on consumer protection are improved according to best European and international practices</p> <p>Guidelines for on-site inspections and off-site risk based supervision to NBCO'S with the focus on AML/CFT</p> <p>Baseline: no guidelines for on-site inspections and off-site risk based supervision for NBCOs in compliance with EU practices and standards were developed and enforced</p> <p>Target data: guidelines developed by the end of the project</p>			
<p>Component IV: NBM internal regulations on oversight activities revised, developed and enhanced.</p>	<p>New internal regulations on oversight for FMI and payment services, aligned to international best practices and EU acquis are developed and approved</p> <p>Baseline - current regulations have not been assessed in terms of EU compliance and need to be improved according to the latest EU practices and standards.</p> <p>Target data: all internal regulations to be compliant with best EU practices by the end of the project.</p>	<p>Annual reports of NBM [2021-2023]</p> <p>Annual report on evolution of payment systems [2021-2023]</p> <p>NBM Oversight policy</p> <p>Qualitative assessment by the IMF/WB (FSAP) and other international institutions of NBM oversight activities</p>	<p>Staff related risks: insufficient personnel, high turnover.</p>	<p>NBM remains committed to the reforms</p> <p>Low turnover of oversight division staff.</p>

80% of employees responsible for oversight are capacitated to effectively work and properly apply the new regulatory framework

Baseline – 50% of employees have some experience in oversight of FMI and payment services area.

Target data: 80% of employees responsible for oversight are capacitated to effectively work and properly apply the new regulatory framework by the end of the project.

Necessary methodologies, regulatory and oversight tools under the new regulations are fully developed and enforced, including:

- oversight of Single CSD and other FMI;
- oversight of payment instruments (traditional and innovative) and payment services (including on-site inspection);

Baseline – current methodologies/tools have not been assessed in terms of EU compliance and need to be improved

<p>Component V. Moldovan legislation and regulatory framework is compliant with SEPA Schemes requirements and the application procedure as a non-EEA member is prepared.</p>	<p>according to the latest EU practices and standards).</p> <p>Target data: assessment finalised by the end of the project</p>	<p>Legislation and regulations publicly available;</p> <p>Annual reports of NBM [2021-2023];</p> <p>Project's reports.</p>	<p>Reluctance of some market players to implement SEPA Scheme requirements because of high integration costs.</p> <p>Reluctance of some authorities to pursue the reforms in the financial sector or other sectors to meet SEPA participation criteria.</p> <p>New updates in SEPA participation criteria.</p> <p>Impossibility to meet some of requirements from SEPA participation criteria, which are out of NBM's control (mainly</p>	<p>NBM remains committed to the reforms</p> <p>There is an appropriate involvement of the NBM staff in project's activities</p>
<p>A comprehensive analysis of the state of play in Moldova and the necessary steps to access SEPA is performed</p> <p>Baseline: NBM drafted the legal assessment of actual local state of play in regard with SEPA Schemes requirements, but this assessment needs to be revised and improved.</p> <p>Target data: Comprehensive assessment by the first quarter after start, considering risks identified and feasibility for local market, which includes a cost / benefit analysis and which presents a multidimensional procedure for determining economic, social benefits, etc. expected, compared to the implementation costs of the project.</p>				

<p>An action plan with milestones and deadlines for adhering to SEPA is established and approved by NBM;</p> <p>Baseline: no action plan performed</p> <p>Target data: action plan performed by the second quarter of the project</p>	<p>geopolitical and economic factors).</p>
<p>Drafting necessary amendments of legislation and preparation of application file to join SEPA;</p> <p>Baseline: Moldova has previously started discussions on this matter with EPC representatives, but there were several requirements, which have changed during the preparation period and the application was suspended in order to ensure the compliance with all new criteria.</p> <p>Target data: final drafts ready by the end of the project</p>	