

# Standard Summary Project Fiche for the Transition Facility

## 1. Basic Information:

- 1.1 **CRIS Number: 2007/019-303.02.02**
- 1.2 Twinning contract BG/07/IB/EC/02
- 1.3 **Title:** Further strengthening of the administrative capacity of the Financial Supervision Commission aiming at the efficient implementation of the acquis communautaire
- 1.4 **Sector:** Internal Market and Economic Criteria
- 1.5 **Location:** Bulgaria, Financial Supervision Commission

## 2. Objectives

### 2.1 Overall Objective(s):

Fully-functioning financial services and protection from misuse of financial services for money laundering and other illegal practices.

### 2.2 Project purpose:

To ensure effective financial supervision of Bulgarian capital markets, pension fund and insurance market.

### 2.3 Justification

The issues, which need further action and are within the scope of the FSC's powers and activities, refer to **the field of money-laundering and insurance**. According to the September 2006 EC Monitoring report: "Bulgaria still needs to demonstrate its ability to deliver tangible results in terms of enforcement and prosecution of cases of money laundering.", and "In the field of insurance, amendments to the Code on Insurance were adopted in June 2006, which provide for an obligatory re-insurance cover that the Guarantee Fund must subscribe. However, many vehicles with invalid plates still circulate in Bulgaria. There is consequently a risk that border checks on MTPL policies of Bulgarian vehicles will still be required after accession and that compensation of victims of road accidents by compensation bodies will not or only partly be provided as foreseen by Article 6 of that Directive.

Building on the progress made since May 2006, Bulgaria's preparation in the area of insurance should continue in the remaining months. "

The above-quoted two recommendations are closely related to the FSC's competences, which are provided for in the Financial Supervision Commission Act and Insurance Code, as well as to the competences of other public institutions. In order to address these recommendations, the FSC should endeavor to establish **an effective working mechanism with all the other competent bodies and stakeholders (including with bodies such as Insurance guarantee fund, Financial Intelligence Agency, Consumers Associations, etc)** which will guarantee timely reaction if new issues in the same field arise. The proposed project could be used as a tool to encourage the dialogue between these competent authorities on the one hand, and on the other hand, between them and the supervised entities.

The **Commission Decision as of December 13<sup>th</sup>, 2006** "Establishing a mechanism for cooperation and verification of progress in Bulgaria to address specific benchmarks in the areas of judicial reform and the fight against corruption and organized crime" sets out six specific benchmarks to be achieved by Bulgaria. The sixth benchmark, i.e. 'the implementation of a strategy to fight organized crime, puts the focus on serious crime, money laundering as well as on the systematic confiscation of assets of criminals. Report on new and ongoing investigations, indictments and convictions in these areas', will be taken into account when implementing the project activities related to anti-money laundering measures.

At EU level some new developments in the field of financial supervision and a new "evolutionary" approach relating to the convergence of supervisory practices are planned to be introduced.

According to the White paper on Financial Services Policy 2005-2010 one of the major objectives of the European Commission over the next 5 years will be the "implementation, enforcement and continuous evaluation of the existing legislation and rigorous application of the better regulation agenda to future initiatives." In order to ensure that sound rules are drawn up, adding value to the EU's financial services, sector and consumers, the legislative process in the EU will deploy an open, transparent, evidence-based policymaking based on a dual commitment to **open consultation and impact assessments**.

Consultation is the cornerstone of the legislative process in the field of financial markets supervision. Open consultations (including with stakeholder groups) will continue to play a central role and will be required before any legislation is deemed necessary at all levels of the legislative process. Consumer representation in the consultation process, i.e. involvement of end-users, should be enhanced.

Impact assessments will accompany any new Commission proposal. They will scope each issue and determine the most appropriate option. They will focus on costs and benefits across the broad economic, social and environmental dimensions, and, where appropriate, the impact on financial stability, proper functioning of markets and consumer protection. Wherever possible, impact assessment methodologies will be shared, prior to publication, with relevant stakeholders.

Therefore, the FSC as the responsible institution for the introduction not only of the acquis in the area of the financial services but also the above-mentioned European practices has the mission to start applying these practices and to educate the local stakeholders thereon.

In the context of the insurance **Solvency II Project**, a major codification exercise is now underway. Without renegotiating the existing acquis, sixteen insurance directives will feed into the new single EC Insurance Directive. The Solvency II project intends to overhaul EC regulation and supervision in the insurance area. Risk-oriented calculations of the solvency requirements for insurance undertakings will be introduced. Calculation of insurance liabilities (technical provisions) will be more harmonized, while fostering the convergence of supervisory practices. This project, which is widely supported, is closely linked with international developments in accounting, supervision and actuarial science and will take account of the important developments in the banking area under Basel II. This could serve as an example for similar codification initiatives for "better regulation" projects in other financial services areas which have been well advanced during 2006, to be finalized in 2007, including:

- adoption of the Directive on supervisory approval of mergers and acquisitions in the banking, insurance and securities sectors in early part of 2007,
- adoption of Directive on the clarification of definitions related to eligible assets for UCITS at the beginning of 2007,

- adoption of Directive of the European Parliament and of the Council on improving the portability of supplementary pension rights
- adoption of Directive to facilitate the cross-border exercise of shareholders' rights in listed companies, through the introduction of minimum standards during the German Presidency.

All the above-quoted projects are aimed to be finalized in 2007 and their introduction into the Bulgarian legislation is planned for 2008.

The second interim report by the Inter-institutional Monitoring Group on the Lamfalussy process, which was presented in the beginning of 2007, is expected to serve as a basis for encouragement of **supervisory practices convergence and cooperation all over Europe** and future developments in the field as well as deepening of relations with other global financial marketplaces.

The FSC has almost no or little expertise and experience in the above-mentioned areas. Therefore, it is essential for the FSC's staff to receive further assistance under the form of a twinning project which will provide opportunities for joint works and consultations with experts from supervisory bodies of other Member States as well as for intensive exchange of expertise, study visits, internships and international trainings.

### 3. Description

#### 3.1 Background and justification:

The FSC should further build its administrative capacity for the implementation of the new acquis in the field of financial supervision. The FSC is staffed with competent personnel, but continued training and exchange of expertise with other supervisory bodies from Member states in the field of new directives drafting, transposition and implementation are needed.

At present, the FSC is benefiting from a twinning project funded by the 2004 National Phare Programme. The twinning project proved to be a very effective tool for exchange of knowledge, practices and expertise between representatives of public institutions. The major shortcoming of the currently implemented twinning project was that the organizational structure and more particularly the consolidation level of our twinning partners was lower than the consolidation level of the FSC, which implies different supervisory methods and procedures used by the two partners. The FSC is consolidated supervisor, responsible for the regulation and supervision of the insurance, private pensions and capital markets, whereas our current partner is only insurance and pensions supervisor, working in consortium with a capital market supervisor. That is why the FSC would like to use the opportunity provided under the Transition Facility Programme to continue its efforts for the strengthening of its administrative capacity and to become a more modern administrative body through a twinning project with financial supervisory bodies from the other EU member-states, which have at least the same level of consolidation.

When preparing the project fiche, mainly the recommendations set out in the Monitoring report on the state of preparedness for EU membership of Bulgaria and Romania were taken into consideration. **The main issues that will be addressed shall be the in the field of anti-money laundering measures and insurance, including reinsurance.**

The other major reason for designing the present project fiche is to ensure the proper implementation of newly-enforced EU legislation during the year 2007. The progress in the area of financial market integration will further facilitate cross-border activities, which call for the simplification of the existing legislation at the European and national level in order to achieve further convergence of financial supervision practices. In this respect the work of the Level 2 and Level 3 committees and working groups within the Lamfalussy framework has

intensified and in the future shall request even more active participation on the side of the MS financial supervisory bodies. The FSC is highly aware of the responsibilities which it has in respect to the intensive work accomplished at the different levels of the Lamfalussy process and its significance. It has been assessed that the FSC's staff lacks sufficient knowledge and expertise regarding the introduction of new legislation at the EU level.

In this respect the main challenges for the FSC shall be:

- Compulsory introduction of risk-based supervision as of 1 January 2008 in connection with the implementation of the Directive on the capital requirements for investment intermediaries, as well as the implementation of CESR's Standard 1 regarding financial data;
- Enhancing of the administrative capacity for participation in the meetings and consultations of committees and/or working groups within the Lamfalussy framework;
- Implementation of new directives which are drafted at present and have not been enforced yet, such as: Draft directive on reinsurance, Draft Directive of the European Parliament and of the Council amending Council Directive 92/49/EEC and Directives 2002/83/EC, 2004/39/EC, 2005/68/EC and 2006/48/EC as regards procedural rules and evaluation criteria for the prudential assessment of acquisitions and increase of shareholdings in the financial sector, Framework directive on the solvency of insurance undertakings (the so called Solvency II Project), Draft directive of the European Parliament and the Council on minimum requirements for improving the vesting and the preservation of supplementary pension rights and others.

### **3.2 Linked activities:**

The FSC has already gathered vast experience in the administration and implementation of EU-funded projects and projects funded by other international donor organizations.

At present, the FSC benefits from and implements two projects funded under the National Phare programme:

- Twinning project for institution building together with the Polish Financial Supervision Authority, as a major partner, and the Spanish Direction General for Insurance and Pension Funds, as a junior partner. (Project BG/2004/IB/FI/02 "Strengthening of the administrative capacity of the Financial Supervision Commission to implement the *acquis* in the field of securities, pensions and insurance"), and
- Supply investment project (Phare Project BG 2005/017-353.02.01) aiming at the establishment of an integrated IT system in the FSC.

The proposed schedule for the implementation of the TFP project will start after the finishing of the present twinning project. In this way the new twinning project can be considered as a kind of extension of the present twinning project.

The FSC is on the verge of completing a Financial Sector Integrity Project funded by USAID which started in October 2004 and should have finished in June 2007. One of the aims of the project is Anti-Money Laundering (AML) activities assisting FSC to improve the procedures for on-site inspections. A twinning project could be a natural prolongation of the FSC efforts towards full synchronization and development of practices and activities for AML with the best European standards. Trainings and advisors assistance will assist FSC for being a worthy partner in this field of the other European non-bank financial services authorities and for fulfilling the recommendations set out in the Monitoring report on the state of preparedness for EU membership of Bulgaria and Romania.

The project will also build on findings and recommendations of previous projects implemented by FSC's predecessors:

- Two consecutive Phare projects have been carried out in the Insurance Supervision Directorate (later on transformed into Insurance Supervision Agency and now merged in the FSC) in 1998 and 1999, namely BG 9805-01-03-02/01 “Strengthening of the Insurance Supervision Directorate at the Ministry of Finance” and BG 99/IB/FI/06 a Twinning contract “Strengthening of the Insurance Supervision Directorate at the Ministry of Finance”. These projects were implemented at the very beginning of the existence of insurance supervisory and regulatory institution in Bulgaria. They focused on setting up of modern legislation in the insurance sector. Also the staff of the Insurance Supervision Directorate was familiarized with the basic concepts of the *acquis communautaire* in the field of insurance.
- State Securities Commission (now merged in the FSC) was beneficiary in USAID-funded “Capital Markets Regulations Project”, realized by Financial Markets International, Inc.
- Social Insurance Supervision Agency (now merged in the FSC) is beneficiary in USAID-funded “Labor Market Project”, which is being realized by Carana Corporation.

### **3.3 Results:**

The results that should be achieved by the end of the project are as follows:

1. EU legislation implemented in a timely and effective manner;
2. Improved effectiveness of financial supervision and regulation over the Bulgarian non-banking financial market;
3. Administrative and financial capacity of the Insurance Guarantee Fund enhanced;
4. At least 90 % of motor vehicles registered in Bulgaria covered with MTPL insurance;
5. Adequate application of the Law on the Measures against Money Laundering by the supervised entities ensured;
6. Procedures for the reporting of money laundering cases to the competent domestic and foreign authorities developed and applied;
7. AML Inspection Manual further developed and applied;
8. Consultation mechanism for the regulatory projects introduced and applied, which provides for the active participation in consultations of other competent public bodies and stakeholders;
9. Public awareness related to financial market matters and positive public attitude to financial supervision measures raised.

### **3.4 Activities:**

The proposed project will be implemented in the form of a twinning project which should ensure the implementation of the following activities:

1. Review of the regulatory background of the financial market and assessment of the status of harmonization with EU requirements jointly prepared by the twinning partners;
2. Drafting of an analysis on the solutions adopted by the Member States resulting from provisions of EU Directives;
3. Preparation of a Report on the solutions applied at the Bulgarian market in the field of securities, insurance and social insurance and Action plan for the implementation of the EU legislation;
4. Drafting of a methodology for cost and benefit analysis and impact assessment of FSC’s policy;
5. Writing of draft legislation which implements the new EU directives (mentioned above in item 2.3 Justification);
6. Providing of trainings on the best EU practices for dealing with information on suspicious transactions of money laundering received by or sent to the Financial Intelligence Agency and other security services bodies;

7. Drafting and application of a procedure for the interaction with other competent bodies, especially the Financial Intelligence Agency and foreign AML bodies, in relation to the initiation of actions against money laundering;
8. Development of fit and proper requirements for the managers of insurance companies and a procedure for carrying out onsite and off-site inspections checking for the adherence to such requirements;
9. Preparation of guidance for the reporting of money laundering cases, which will be issued by the FSC;
10. Further development of the existing AML inspection manual and training on the implementation of the AML inspection manual;
11. Drafting of written internal rules for the insurance records which justify an insurance claim, especially for events which take place outside of Bulgaria, and drafting of a procedure for the filing of claims which shall be applied by the Insurance Guarantee Fund;
12. Development of a methodology for risk assessments and evaluation of the necessary financial funds in accordance to various scenarios, which shall be applied by the Insurance Guarantee Fund;
13. Drafting of technical specifications for the development of a software product for juxtaposing of Insurance Guarantee Funds' database and the Ministry of Interior database in order to produce updated reports on the insured motor vehicles, respectively uninsured motor vehicles. The technical specifications will be used for the tendering of a future service project. (The above-mentioned software should be able to detect errors in the Insurance Guarantee Funds database and to automatically recognize coincidences of records, which have minor errors, but nevertheless the coincidence degree is relatively high. The idea is to eliminate the human factor errors. 10% of the total records contain such errors.)
14. Organization of round tables aimed at the public discussion of draft legislation;
15. Preparing an analysis of the FSC staff skills and qualification and conducting respective training programme, focused on the participation in the working groups and committees within the Lamfalussy framework;
16. Training of FSC staff responsible for drafting regulations in securities and insurance (incl. pension), including through internships in other consolidated financial supervisory and/or regulatory bodies and international trainings;
17. Three study visits in each line of business (securities, insurance and pension funds supervision) conducted in other financial supervisory and/or regulatory bodies aiming at the convergence of supervisory practices. The experts participating in the study visit will compile a report that will be distributed within the administration and train the colleagues on the newly acquired skills as appropriate.
18. Providing of methodological assistance for the implementation of new pieces of legislation, regulatory impact assessments, quantitative impact studies, risk-based supervision principles (particularly in view of the application of the Capital Requirements Directive and Solvency II project), including staff training.
19. Drafting and implementing of a program for the participation of the FSC's in international (incl. EU) organizations in the field of financial market supervision,
20. Organization of workshops and seminars on the new regulations for the business representatives in order to familiarize them with the new developments in the respective field (securities, insurance and pension funds) and with the consultation mechanisms related to the adoption of new EU legislation and to prepared them for active involvement in the market participants' consultative committees within the Lamfalussy procedure.
21. Organization of seminars for representatives of other public bodies and the industry, journalists and consumer associations, focused on the process of building of common market of financial services, EU standards and legal framework in the field of financial services;
22. Drafting of educational and promotional materials necessary for educational campaigns.

### 3.5 Lessons learned:

When designing the project fiche, the lessons that have been learned during the implementation of previous Phare projects (See in Section 3.2. Linked activities) were vastly taken into account. Generally, the current twinning project proved to be a very useful instrument for enhancing the administrative capacity of the FSC, especially in the field of international cooperation and development of the regulatory framework.

The major drawback that we have faced related to this project is outlined in the Interim evaluation report R/BG/FIN/05.11 issued by Ecotec Bulgaria on November 28<sup>th</sup>, 2005. In it the provided assistance under the above-mentioned twinning project was assessed as barely satisfactory. The reason for such evaluation was that the three twinning partners are *not financial regulators with the same level of consolidation* as that of the Financial Supervision Commission (FSC). Recently, the Polish Insurance and Pension Supervision Commission (KNUiFE) and the Polish Securities Exchange Commission (KPWiG) merged in one supervisory body, and henceforward, the new Polish Financial Supervisory Authority is facing the challenges which the FSC has already faced and hoped to address when it tried to mobilize Phare resources some years ago. It was recommended to identify and approach Member States institutions which could better address the FSC's needs and seek for opportunities for a twinning contract with a MS's supervisory body either with the same level of consolidation, or with a higher.

Besides this, it should be noted down that the current twinning projects includes activities dedicated to the further development of the regulatory framework. It has been already completed successfully and proved to be a very helpful tool for adopting good practices and exchange of expertise in the field of harmonization of legislation.

The activities and results to be achieved by implementation of the proposed project under the Transition Facility Programme are designed so that they include areas that have not been either covered sufficiently enough by the current twinning project respectively by the twinning partners, or areas in which joint work and consultations have been very useful for the respective FSC's staff.

## 4. Institutional Framework

The primary beneficiary of the project is the Financial Supervision Commission. As of March 1st, 2003 is in force the Law on the Financial Supervision Commission. Under it a Financial Supervision Commission (FSC) is established. The FSC is a specialized state body for regulation of and supervision over the activities of:

- ✓ the regulated securities markets,
- ✓ the Central Depository,
- ✓ the investment intermediaries,
- ✓ the management companies,
- ✓ the undertakings for collective investments in transferable securities,
- ✓ the natural persons who directly execute transactions in securities and provide investment advice,
- ✓ the public companies and other securities issuers
- ✓ the insurers,
- ✓ the insurance brokers and insurance agents;
- ✓ the companies carrying out activities concerning the supplementary social insurance, including the pension, and for unemployment and professional qualification, as well as of the managed by them funds.

As an administrative structure the FSC is a collective body and consists of seven members: chairman, three deputy chairmen and three other members. The total number of the Commission's staff on the pay-roll is 230, allocated in general and specialized administration. The specialized administrations consists of three main divisions "Investment Supervision",

“Insurance Supervision” and “Social Insurance Supervision”, each being directly led by a deputy chairman of the Commission.

The FSC, in the fulfillment of its powers, is independent of the executive power and reports on its activities under this Law to the Parliament. It is funded partly by taxes from the business and partly by the state budget. FSC has a separate budget, which makes part of the consolidated government budget. It is voted by the parliament and the government (through the Ministry of Finance) can only give opinion on it.

There will be indirect beneficiaries of the proposed project such as the Ministry of Finance, compensations and guarantee funds, the specific business association, supervised entities, journalists, students, etc.

## 5. Detailed Budget (in million euro)

€M	Transition Facility support			Co-financing			Total cost
	Investment	Institution Building	Total Transition Facility (=I+IB)	National Public Funds (*)	Other Sources (**)	Total co-financing of the project	TF plus cofinancing
contract 1 twinning		€ 0.450	€ 0.450	(***)			€ 0.450
<b>Total</b>		€ 0.450	€ 0.450				€ 0.450

(\*) contributions from National, Regional, Local, Municipal authorities, FIs loans to public entities, funds from public enterprises. All the co-financing is joint co-financing and will be provided from the state budget. In the case where the final overall cost is lower than foreseen in the project fiche, the national public and Transition Facility co-financing shall be reduced proportionally so as to maintain the agreed rate of co-financing.

(\*\*) private funds, FIs loans to private entities

(\*\*\*) National co-financing will up to 10% of the budget of the twinning contract and will be provided from the State budget through the “National Fund” Directorate at the Ministry of Finance.

Contributions from the Bulgarian administration for effective implementation of the twinning/ may be further detailed in the twinning contract/terms of references.

To ensure smooth implementation of the project, the beneficiary will provide adequately equipped office space with telephone, PC (Internet) and fax. Photocopier and access to the necessary information as well as secretarial support will be ensured during the project life-time. In addition the beneficiary will provide space and facilities for workshops (training), consultations and seminars. The national co-financing will be specified in the twinning contract.

## 6. Implementation Arrangements

### 6.1 Implementing Agency

The implementing agency for this project will be the Central Financing and Contracting Unit at the Ministry of Finance (the CFCU). The CFCU will be responsible for the tendering activities, conclusion of the contract and effecting of contract payment under the project.

Contact details:

Mr. Lyubomir Tushanov

CFCU Director  
102, Rakovski str., 1040 Sofia, Bulgaria  
Tel: +359 2 9859 2772, 359 2 9859 2777  
Fax: +359 2 9859 2773

Programme Authorizing Officer (PAO):  
Ms. Gergana Beremska  
State Treasurer  
Ministry of Finance  
102, Rakovski str., 1040 Sofia, Bulgaria  
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The responsibility for technical project preparation, implementation and control will remain with the beneficiary institution, i.e. the Financial Supervision Commission.

The FSC Project Implementation Unit (PIU) will be the main contact point for all official communications between the Twinning partner and the FSC concerning the implementation and management of the project. In this particular case, the International Cooperation Department at the FSC will play the role of a PIU, which shall also be assisted by experts from the specialized administration.

The contact persons for the project are:

- ✓ Ms. Nina Koltchakova - Director “International Co-operation and public relations”, Financial Supervision Commission, Sofia 1000, 33 Shar Planina str., tel: +359 2 94 04 601, fax: +359 2 829 43 18, e-mail: [koltchakova\\_n@fsc.bg](mailto:koltchakova_n@fsc.bg),
- ✓ Ms. Vizhdan Boranova - Head of International Co-operation Department, Financial Supervision Commission, Sofia 1000, 33 Shar Planina str., tel: +359 2 94 04 815, fax: +359 2 829 43 18, e-mail: [boranova\\_v@fsc.bg](mailto:boranova_v@fsc.bg).

## **6.2 Twinning**

The Contract will be implemented during the years 2008 and/or 2009 and will be carried out through a twinning arrangement between a financial supervisory body of one or more EU member states and the Financial Supervision Commission as beneficiary institution. The Twinning Manual will apply.

A Member State (MS) Project Leader, who continues to work in his/her Member State administration but who devotes some of his/her time to conceiving, supervising and coordinating the overall implementation of the project. The profile of the MS Project Leader should be:

- ✓ High-ranking official in a public institution in a Member States, responsible for financial markets regulation and supervision (at least 7 years of experience);
- ✓ Public sector expert;
- ✓ In a position to operate at the appropriate political level;
- ✓ Excellent leadership skills;
- ✓ Broad knowledge in all the processes related to the implementation of EU-funded projects;
- ✓ Fluency in English.

The MS Project Leader will be complemented by a Resident Twinning Advisor (RTA) from a Member State to work on a day-to-day basis with the beneficiary. The stay of the RTA is foreseen to be at least 12 months. The RTA Profile should be:

- ✓ High level official from a public institution in a Member State, responsible for financial markets regulation and supervision (at least 5 years of experience);
- ✓ Public sector expert;
- ✓ Relevant education or experience in business administration;
- ✓ Familiar with EU legislative process, regulatory system and cooperation practices at EU level (at least 3 years experience with acquis);
- ✓ Fluent in English.

The team will include short-term experts to support the relevant activities of the Project. The profile of the Short Term MS Experts is, as follows:

- ✓ Public sector experts,
- ✓ At least 5 years of professional experience in the field of financial supervision,
- ✓ Fluent in English.

Local Support Staff:

- ✓ Assistant to the RTA and project team on site for the entire duration of the project providing general project support; perform necessary administrative and secretarial duties, as well as translation between Bulgarian English for project related documentation and ad-hoc interpretation as necessary during the meetings.

The role of a Bulgarian Project Leader will be undertaken by the Director of International Cooperation and Public Relations Directorate who will be responsible for the substance and the progress of the project. At present, the contact details of the Director of International Cooperation and Public Relations Directorate are, as follows:

BC Project Leader

**Contact details:**

Mrs. Nina Koltchakova

Address: Sofia 1000, 33 Shar Planina str.,

tel: +359 2 94 04 601, fax: +359 2 829 43 18, e-mail: [koltchakova\\_n@fsc.bg](mailto:koltchakova_n@fsc.bg).

The Bulgarian Project Leader shall direct the implementation of the project and shall be responsible for the substance and the progress of the project.

BC Project implementation manager and RTA counterpart

RTA counterpart shall be Ms. Vizhdan Boranova. She will work on a day-to day basis with the RTA.

**Contact details:**

Ms. Vizhdan Boranova - Head of International Co-operation Department, Financial Supervision Commission, Sofia 1000, 33 Shar Planina str., tel: +359 2 94 04 815, fax: +359 2 829 43 18, e-mail: [boranova\\_v@fsc.bg](mailto:boranova_v@fsc.bg).

The FSC will also establish special organizational structure for the technical management and monitoring of the project, which comprises the Project Leader, a Steering Committee and a dedicated Programme Implementation Unit (PIU). The Head of International Cooperation Department will be appointed as RTA counterpart. The project will be coordinated by one or, if needed two experts, working in the International Cooperation Department, which will be the core of the PIU.

The Project Steering Committee will be chaired by the Bulgarian and MS Project Leader, and will also include representatives from the Implementing agency and the “Management of EU Funds Directorate” at the Ministry of Finance, the RTA and the RTA counterpart. At quarterly intervals or whenever deemed necessary by its members, the PSC members will meet to discuss the progress of the project, verify the achievement of the outputs and mandatory results and discuss actions to be undertaken in the following quarter.

The working language of the project shall be English. Translation and interpretation services will be provided for those activities in which non-English speaking experts participate.

### **6.3 Non-standard aspects**

N.A.

### **6.4 Contracts**

There will be only one contract which value will amount to € 0.450 mln. plus national co-financing, which amounts up to 10% of the EC funds.

## **7. Implementation Schedule**

### **7.1 Start of tendering/call for proposals**

IV<sup>th</sup> quarter of 2007

### **7.2 Start of project activity**

There will be a single contract and it shall start in the beginning of the III<sup>rd</sup> quarter of 2008 and will last 12 months, i.e. till the beginning of the III<sup>rd</sup> quarter of 2009.

### **7.3 Project Completion**

The last payment under the contract shall be effected during the III<sup>rd</sup> quarter of 2009.

## **8. Sustainability**

The FSC has already proven its capacity to administer and to benefit from Institution Building projects. As it was mentioned above at present the FSC successfully implements a twinning project with duration of 24 months.

Sustainability of activities will be ensured through:

- ✓ Development, approval and introduction of manuals and instructions, written internal rules and procedures which will be applied in the everyday work of the FSC's staff;
- ✓ Preparation of reports after study visit and STE's mission which will be distributed to interested and competent experts;
- ✓ Organization of training conducted by those experts who have already taken part in study visits and been trained;
- ✓ Preparation of regular monitoring reports/reviews of the implemented activities, including assessment and proposals for improvement.

## **9. Conditionality and sequencing**

N.A.

### **ANNEXES TO PROJECT FICHE**

1. Logical framework matrix in standard format (compulsory)
2. Detailed implementation chart (compulsory)
3. Contracting and disbursement schedule by quarter for full duration of programme (including disbursement period) (compulsory)

4. Indicative budget breakdown
5. List of relevant Laws and Regulations (optional)

**Logical framework matrix in standard format**

<b>LOGFRAME PLANNING MATRIX</b>			Programme name and number	TF 2007-2010
<b>Project title: <i>Further strengthening of the administrative capacity of the Financial Supervision Commission aiming at the efficient implementation of the acquis communautaire</i></b>			Contracting period expires on 15 December 2009	End of execution of contract - 15 December 2010
			<b>Total budget € 0.450 mln</b>	<b>Transition Facility Budget € 0.450 mln</b>
<b>Overall objective</b>	<b>Objectively Verifiable Indicators<sup>1</sup></b>	<b>Sources of Verification</b>		
Fully functioning financial services and protection from misuse of financial services for money laundering and other illegal practices.	<ul style="list-style-type: none"> <li>• 10% increase in the number of foreign financial market participants;</li> <li>• 15% increase in the share of foreign owned capital</li> <li>• Insurance penetration exceeds 2.7 %.</li> </ul>	Statistical data of Bulgarian National Bank, National Statistical Institute, OECD, IMF, Eurostat.		
<b>Project purpose (Immediate Objectives)</b>	<b>Objectively Verifiable Indicators</b>	<b>Sources of Verification</b>	<b>Assumptions</b>	
To further align the administrative capacity of the FSC for better regulation and supervision of the non-banking financial sector with EU standards.	<ul style="list-style-type: none"> <li>• EU legislation transposed in a timely and appropriate manner by the end of 2009;</li> <li>• All CESR and CEIOPS standards and guidelines applied by FSC staff by the end of 2009;</li> <li>• FSC's staff trained in the implementation of CESR and CEIOPS standards, recommendations and guidelines;</li> <li>• 20% increase in the number of staff which actively participates in the work of Level 2&amp;3 committees by the end of 2009;</li> <li>• Written rules, procedures, manuals, methodologies introducing EU and international standards approved and applied by the FSC;</li> <li>• 20% level of involvement of business associations in local and EU consultation procedures.<sup>2</sup></li> </ul>	<ul style="list-style-type: none"> <li>• Transposition assessment tables issued by EC</li> <li>• State Gazette</li> <li>• Self-assessment of the administrative capacity</li> <li>• Evaluation and monitoring reports</li> <li>• FSC quarterly and annual reports</li> <li>• Statistical data</li> <li>• Agenda of the trainings and list of participants in the trainings</li> <li>• CESR, CEIOPS and EC reports</li> </ul>	Risks and constraints: <ul style="list-style-type: none"> <li>• Institutional and personal resources changes</li> <li>• Timely adoption of draft laws by the Parliament.</li> </ul>	

<sup>1</sup> Even though some of the objectively verifiable indicators are not measurable, their absence or presence can demonstrate the achievement of the project results. The baseline data for quantifiable indicators can be taken from the respective quarterly and annual reports of the FSC when the project commences.

Results	Objectively Verifiable Indicators	Sources of Verification	Assumptions
<ul style="list-style-type: none"> <li>• EU legislation implemented in a timely and effective manner;</li> <li>• Improved effectiveness of financial supervision and regulation over the Bulgarian non-banking financial market improved;</li> <li>• Risk-based supervision principles introduced;</li> <li>• Administrative and financial capacity of the Insurance Guarantee Fund enhanced;</li> <li>• Motor vehicles registered in Bulgaria covered with MTPL insurance;</li> <li>• Adequate application of the Law on the Measures against Money Laundering by the supervised entities ensured;</li> <li>• Effective process for the reporting of money laundering cases to the competent domestic and foreign authorities developed and introduced;</li> <li>• AML Inspection Manual further developed and applied;</li> <li>• Consultation mechanism for the regulatory projects introduced and applied, which provides for the active participation in consultations of other competent public bodies and stakeholders;</li> <li>• Public awareness related to financial market matters and positive public attitude to financial supervision measures raised.</li> </ul>	<ul style="list-style-type: none"> <li>• 20 published reports on different topics</li> <li>• 120 members of the staff trained in risk-based supervision principles, RIA procedures, AML measures, consultation mechanisms, Level 3 committees standards and guidelines;</li> <li>• 5 international trainings in RIA, risk-based supervision principles, Level 3 committees standards and guidelines, with 10 participants in them</li> <li>• 200 business representatives covered by seminars and workshops</li> <li>• 100 participants in round tables</li> <li>• 500 people covered by the educational campaigns</li> <li>• 10 leaflets on different topical issues</li> <li>• Draft pieces of legislation submitted timely according to the FSC's legislative programme</li> <li>• Methodology for regulatory impact assessments introduced</li> <li>• 10% growth of newly-registered supervised entities</li> <li>• Infringement procedures initiated, if any;</li> <li>• 15% increase in the number of notifications under the freedom of services provisions received and sent;</li> <li>• Written procedure for the reporting of money-laundering cases drafted and approved;</li> <li>• 10% increase in the number of suspicious cases reported to the Financial Intelligence Agency which are further investigated;</li> <li>• Share of vehicles with MTPL insurance (as a ratio to the total number of registered vehicles) – above 90%;</li> </ul>	<ul style="list-style-type: none"> <li>• Transposition assessment tables issued by EC</li> <li>• Project Quarterly reports</li> <li>• FSC's quarterly and annual reports</li> <li>• Analyses</li> <li>• Articles in the specialized press</li> <li>• Peer reviews and self-assessment exercises</li> <li>• List of participants in round tables, seminars and workshops</li> <li>• Evaluation forms</li> <li>• Information center at the Insurance Guarantee Fund</li> <li>• FSC's registers</li> <li>• FSC's web-site</li> <li>• Inspection AML manual</li> </ul>	<p>Risks and constraints:</p> <ul style="list-style-type: none"> <li>• High rate of turnover of the FSC's staffed trained in the project;</li> <li>• Efficient co-operation with all the institutions involved;</li> <li>• Political support for the introduction of new procedures and standards related to convergence of supervisory practices.</li> </ul>

<sup>2</sup> At present, the Bulgarian association in the nonbanking financial services sector are not involved in the EU-wide consultations at all.

	<ul style="list-style-type: none"> <li>• 15% reduction in the amount of payments reimbursed by the Insurance Guarantee Fund.</li> <li>• New ordinances and internal procedures/written rules implementing risk-based supervision principles drafted and approved;</li> <li>• New methodologies drafted, approved and implemented by the FSC's staff;</li> <li>• Technical specifications for a software product for the Insurance Guarantee Fund developed</li> <li>• 60 FSC employees trained how to apply the Inspection AML Manual</li> </ul>		
<b>Activities</b>	<b>Means</b>		<b>Assumptions</b>
<ul style="list-style-type: none"> <li>• Review of the regulatory background of the financial market and assessment of the status of harmonization with EU requirements;</li> <li>• Drafting of an analysis on the solutions adopted by the Member States resulting from provisions of EU Directives;</li> <li>• Preparation of a Report on the solutions applied at the Bulgarian market in the field of securities, insurance and social insurance and Action plan for the implementation of the EU legislation;</li> <li>• Drafting of a methodology for cost and benefit analysis and impact assessment of FSC's policy;</li> <li>• Writing of draft legislation which implements the new EU directives;</li> <li>• Providing of trainings on the best EU practices for dealing with information on suspicious transactions of money laundering received by or sent to the Financial Intelligence Agency;</li> <li>•</li> </ul>	<p>Twining contract for institutional building</p>		<ul style="list-style-type: none"> <li>• Ability and higher administrative capacity of the twining partner, more advanced implementation of the EU standards in its jurisdiction and proactive attitude to the project;</li> <li>• Strict monitoring over the implementation of the project;</li> <li>• Effective cooperation with non-direct beneficiaries such as Ministry of Finance and business associations;</li> <li>• Timely adoption of the new legislation by the parliament.</li> </ul>

<ul style="list-style-type: none"> <li>• Drafting and application of a procedure for the interaction with other competent bodies, especially the Financial Intelligence Agency and foreign AML bodies, in relation to the initiation of actions against money laundering;</li> <li>• Development of fit and proper requirements for the managers of insurance companies and a procedure for carrying out onsite and off-site inspections checking for the adherence to such requirements;</li> <li>• Preparation of guidance for the reporting of money laundering cases, which will be issued by the FSC;</li> <li>• Further development of the existing AML inspection manual and training on the implementation of the AML inspection manual;</li> <li>• Drafting of written internal rules for the insurance records which justify an insurance claim, especially for events which take place outside of Bulgaria, and drafting of a procedure for the filing of claims which shall be applied by the Insurance Guarantee Fund;</li> <li>• Development of a methodology for risk assessments and evaluation of the necessary financial funds in accordance to various scenarios, which shall be applied by the Insurance Guarantee Fund;</li> <li>• Drafting of technical specifications for the development of a software product for juxtaposing of Insurance Guarantee Funds' database and the Ministry of Interior database in order to produce updated reports on the insured motor vehicles, respectively uninsured motor vehicles.</li> <li>• Organization of round tables aimed at the public discussion of draft legislation;</li> </ul>			
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<ul style="list-style-type: none"> <li>• Preparing an analysis of the FSC staff skills and qualification and conducting respective training programme, focused on the participation in the working groups and committees within the Lamfalussy framework;</li> <li>• Training of FSC staff responsible for drafting regulations in securities and insurance (incl. pension), including through internships in other consolidated financial supervisory and/or regulatory bodies and international trainings;</li> <li>• Three study visits in the three different lined of business conducted in other financial supervisory and/or regulatory bodies aiming at the convergence of supervisory practices;</li> <li>• Providing of methodological assistance for the implementation of new pieces of legislation, regulatory impact assessments, quantitative impact studies, risk-based supervision principles(particularly in view of the application of the Capital Requirements Directive and Solvency II project), including staff training.</li> <li>• Drafting and implementing of a program for the participation of the FSC's in international (incl. EU) organizations in the field of financial market supervision,</li> <li>• Organization of workshops and seminars on the new regulations for the business representatives in order to familiarize them with the new developments in the respective field (securities, insurance and pension funds) and with the consultation mechanisms related to the adoption of new EU legislation and to prepared them for active involvement in the market participants' consultative committees within the Lamfalussy procedure.</li> </ul>			
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<ul style="list-style-type: none"> <li>• Organization of seminars for representatives of other public bodies and the industry, journalists and consumer associations, focused on the process of building of common market of financial services, EU standards and legal framework in the field of financial services;</li> <li>• Drafting of educational and promotional materials necessary for educational campaigns.</li> </ul>			
			<b>Preconditions</b>
			N.A.

**Detailed implementation chart**<sup>3</sup>

№	Contract type and activities	Years											
		2007				2008				2009			
		I	II	III	IV	I	II	III	IV	I	II	III	IV
1	Selection of a twinning partner				X								
2	Drafting of the twinning contract					P	C	I	I	I	I		
3	Review of the regulatory background of the financial market and assessment of the status of harmonization with EU requirements jointly prepared by the twinning partners						I						
4	Drafting of an analysis on the solutions adopted by the Member States resulting from provisions of EU Directives						I						
5	Preparation of a report on the solutions applied at the Bulgarian market in the field of securities, insurance and social insurance and action plan for the implementation of the EU legislation					P	P	I	I	I			
6	Providing of trainings on the best EU practices for dealing with information on suspicious transactions of money laundering received by or sent to the Financial Intelligence Agency and other security services bodies							I					
7	Drafting and application of a procedure for the interaction with other competent bodies, especially the Financial Intelligence Agency and foreign AML bodies, in relation to the initiation of actions against money laundering;						P	I	I	I			
8	Development of fit and proper requirements for the managers of insurance companies and a procedure for carrying out onsite and off-site inspections checking for the adherence to such requirements;						P	I					
9	Preparation of guidance for the reporting of money laundering cases, which will be issued by the FSC						P	I					
10	Further development of the existing AML inspection manual and training on the implementation of the AML inspection manual;						P	I	I				
11	Drafting of written internal rules for the insurance records which justify an insurance claim, especially for events which take place outside of Bulgaria, and drafting of a procedure for the filing of claims which shall be applied by the Insurance Guarantee Fund;						P	I	I				
12	Development of a methodology for risk assessments and evaluation of the necessary financial funds in accordance to various scenarios, which shall be applied by the Insurance Guarantee Fund							P	I	I			
13	Drafting of technical specifications for the development of a software product for juxtaposing of Insurance Guarantee Funds' database and the Ministry of Interior database in order to produce updated reports on the insured motor vehicles, respectively uninsured motor vehicles						P	I	I	I	I		
14	Drafting of a methodology for cost and benefit analysis and impact assessment of FSC's policy						P	I					
15	Writing of draft legislation which implements the new EU directives					P	P	I	I	I	I		
16	Organization of round tables aimed at the public discussion of draft legislation							I	I	I	I		
17	Preparing an analysis of the FSC staff skills and qualification and conducting respective training programme, focused on the participation in the working groups and committees within the Lamfalussy framework							I	I	I	I		
18	Training of FSC staff responsible for drafting regulations in securities, insurance and pension funds, including through internships in other consolidated financial supervisory and/or regulatory bodies and international trainings							I	I	I	I		

<sup>3</sup> P=Preparation, C=Contracting, I=Implementation.

№	Contract type and activities	Years													
19	Three study visits in other financial supervisory and/or regulatory bodies aiming at the convergence of supervisory practices									I		I			
20	Providing of methodological assistance for the implementation of new pieces of legislation, regulatory impact assessments, quantitative impact studies, risk-based supervision principles, including staff training									I	I	I	I		
21	Drafting and implementing of a program for the participation of the FSC's in international organizations in the field of financial market supervision								P	I					
22	Organization of workshops and seminars on the new regulations for the business representatives in order to familiarize them with the new developments in the respective field and with the consultation mechanisms related to the adoption of new EU legislation and to prepared them for active involvement in the market participants' consultative committees within the Lamfalussy procedure								P	I	I	I	I		
23	Organization of seminars for representatives of other public bodies and the industry, journalists and consumer associations, focused on the process of building of common market of financial services, EU standards and legal framework in the field of financial services								P	I	I	I	I		
24	Drafting of educational and promotional materials necessary for educational campaigns.								P	I	I				
25	Drafting of the Quarterly and Final Project Reports and submission for approval											I	I	I	I

**Contracting and disbursement schedule by quarter for full duration of programme  
(including disbursement period)**

<i>Project title: Further strengthening of the administrative capacity of the Financial Supervision Commission aiming at the efficient implementation of the acquis communautaire</i>									
<b>Contracting</b>	<b>Cumulative contracting schedule by quarter in € m (provisional)</b>								<b>Total</b>
	<b>2008</b>				<b>2009</b>				
	<b>I</b>	<b>II</b>	<b>III</b>	<b>IV</b>	<b>I</b>	<b>II</b>	<b>III</b>	<b>IV</b>	
Twinning Contract			0.45	0.45	0.45	0.45			<b>0.45</b>
<b>Total contracting:</b>			<b>0.45</b>	<b>0.45</b>	<b>0.45</b>	<b>0.45</b>			<b>0.45</b>
<b>Disbursement</b>	<b>Cumulative disbursement schedule by quarter in € m (provisional)</b>								
	<b>2008</b>				<b>2009</b>				
	<b>I</b>	<b>II</b>	<b>III</b>	<b>IV</b>	<b>I</b>	<b>II</b>	<b>III</b>	<b>IV</b>	
Twinning Contract			0.27	0.27	0.40	0.45	0.45		<b>0.45</b>
<b>Total disbursement</b>			<b>0.27</b>	<b>0.27</b>	<b>0.40</b>	<b>0.45</b>	<b>0.45</b>		<b>0.45</b>

**Indicative Budget Breakdown**

<b>№</b>	<b>Activities to be financed under the twinning project</b>	<b>MS</b>	<b>BC</b>	<b>TF financing</b>	<b>BC Co-financing</b>	<b>Total</b>
1	RTA costs (remuneration, allowances and training)	X		170 000,00		170 000,00
2	RTA assistant (remuneration)	X		8 800,00		8 800,00
3	Project preparation (drafting of the twinning contract)			10 000,00		10 000,00
4	Project coordination (including audit costs)	X	X	15 000,00	5 000,00	20 000,00
5	Project inauguration event	X	X	3 200,00	1 000,00	4 200,00
6	Review of the regulatory background of the financial market and assessment of the status of harmonization with EU requirements jointly prepared by the twinning partners	X		10 000,00		10 000,00
7	Drafting of an analysis on the solutions adopted by the Member States resulting from provisions of EU Directives	X		6 000,00		6 000,00
8	Preparation of a report on the solutions applied at the Bulgarian market in the field of securities, insurance and social insurance and action plan for the implementation of the EU legislation	X		6 500,00		6 500,00
9	Providing of trainings on the best EU practices for dealing with information on suspicious transactions of money laundering received by or sent to the Financial Intelligence Agency and other security services bodies	X		5 000,00		5 000,00
10	Drafting and application of a procedure for the interaction with other competent bodies, especially the Financial Intelligence Agency and foreign AML bodies, in relation to the initiation of actions against money laundering;	X		4 000,00		4 000,00
11	Development of fit and proper requirements for the managers of insurance companies and a procedure for carrying out onsite and off-site inspections checking for the adherence to such requirements;	X		4 500,00		4 500,00
12	Preparation of guidance for the reporting of money laundering cases, which will be issued by the FSC	X		3 000,00		3 000,00
13	Further development of the existing AML inspection manual and training on the implementation of the AML inspection manual;	X		3 000,00		3 000,00
14	Drafting of written internal rules for the insurance records which justify an insurance claim, especially for events which take place outside of Bulgaria, and drafting of a procedure for the filing of claims which shall be applied by the Insurance Guarantee Fund;	X		4 000,00		4 000,00
15	Development of a methodology for risk assessments and evaluation of the necessary financial funds in accordance to various scenarios, which shall be applied by the Insurance Guarantee Fund	X		6 000,00		6 000,00
16	Drafting of technical specifications for the development of a software product for juxtaposing of Insurance Guarantee Funds' database and the Ministry of Interior database in order to produce updated reports on the insured motor vehicles, respectively uninsured motor vehicles	X		20 000,00		20 000,00
17	Drafting of a methodology for cost and benefit analysis and impact assessment of FSC's policy	X		10 000,00		10 000,00
18	Writing of draft legislation which implements the new EU directives	X		45 000,00		45 000,00
19	Organization of round tables aimed at the public discussion of draft legislation	X		10 000,00	8 000,00	18 000,00

<b>Nº</b>	<b>Activities to be financed under the twinning project</b>	<b>MS</b>	<b>BC</b>	<b>TF financing</b>	<b>BC Co-financing</b>	<b>Total</b>
20	Preparing an analysis of the FSC staff skills and qualification and conducting respective training programme, focused on the participation in the working groups and committees within the Lamfalussy framework	X	X	12 000,00	5 000,00	17 000,00
21	Training of FSC staff responsible for drafting regulations in securities, insurance and pension funds, including through internships in other consolidated financial supervisory and/or regulatory bodies and international trainings	X	X	20 000,00	7 000,00	27 000,00
22	Three study visits in the three different lines of business conducted in other financial supervisory and/or regulatory bodies aiming at the convergence of supervisory practices	X	X	16 000,00	5 000,00	21 000,00
23	Providing of methodological assistance for the implementation of new pieces of legislation, regulatory impact assessments, quantitative impact studies, risk-based supervision principles, including staff training	X		30 000,00		30 000,00
24	Drafting and implementing of a program for the participation of the FSC's in international organizations in the field of financial market supervision	X		4 500,00		4 500,00
25	Organization of workshops and seminars on the new regulations for the business representatives	X	X	10 000,00	6 000,00	16 000,00
26	Organization of seminars for representatives of other public bodies and the industry, journalists and consumer associations, focused on the process of building of common market of financial services, EU standards and legal framework in the field of financial services	X		10 000,00	6 000,00	16 000,00
27	Drafting of educational and promotional materials necessary for educational campaigns.	X	X	3 500,00	2 000,00	5 500,00
<b>Total</b>				<b>450 000,00</b>	<b>45 000,00</b>	<b>495 000,00</b>

**LIST OF RELEVANT LAWS AND REGULATIONS**

**General legislation**

1. Financial Supervision Commission Act
2. Regulation for the structure and the activity of the Financial Supervision Commission
3. Law on Measures against Money Laundering

**Securities**

1. Law on public offering of securities;
2. Special investment purpose companies act;
3. Law on Measures against Market Abuse with Financial Instruments]
4. Market in Financial Instruments Act.

**Insurance**

1. Insurance Code;
2. Health Insurance Act
3. Regulation for the structure and the activity of the Guarantee Fund

**Social Insurance**

1. Social Insurance Code.