European Commission

2019

Annual Activity Report

Directorate-General for Financial Stability, Financial Services and Capital Markets Union (DG FISMA)

Table of Contents

THE DG IN BRIEF

The European Commission's Directorate-General for Financial Stability, Financial Services and Capital Markets Union (DG FISMA) is responsible for initiating and implementing policies relating to the EU's financial sector.

It is based in Brussels. The DG is composed of 5 directorates and 24 units. DG FISMA is managed by the acting Director-General John Berrigan under the political authority of the Executive Vice-President Valdis Dombrovskis responsible for An Economy that Works for People.

The DG supports the Executive Vice-President to carry out the mission entrusted to him by the President of the European Commission.

EXECUTIVE SUMMARY

This Annual Activity Report is a management report of the Director-General of DG FISMA to the College of Commissioners. Annual Activity Reports are the main instrument of management accountability within the Commission and constitute the basis on which the College takes political responsibility for the decisions it takes as well as for the coordinating, executive and management functions it exercises, as laid down in the Treaties[1].

[1] Article 17(1) of the Treaty on European Union.

a) Key results and progress towards the achievement of the Commission's general objectives and DG's specific objectives (executive summary of section 1)

Introductory considerations

During 2019, under the leadership of Vice-President Dombrovskis and in line with DG FISMA Strategic Plan 2016-2020, the Directorate-General has been fully committed to delivering on the objectives announced in the 2019 Management Plan in its three General Objectives (New Boost for Jobs Growth and Investment; Deeper and Fairer Internal Market with a Strengthened Industrial Base; Deeper and Fairer Economic and Monetary Union).

An overview of the results achieved in 2019 is provided in section 1 of this report and further details are presented in the performance tables in Annex 12.

Generally, most targets and milestones announced in the 2019 Management Plan have been reached and are presented in the relevant sections. In a limited number of cases in 2019, targets were either achieved later in the year than expected, or are expected to be achieved in 2020. These delays are due to internal or external reasons, or a combination of both. A longer preparatory process can for instance cause internal delays, while external delays are often a result of changing priorities or prolonged negotiations between the co-legislators.

New boost for jobs, growth and investment

In 2019 further progress was made towards the implementation of the Capital Markets Union (CMU) Action Plan and the CMU Mid-term review. Political agreements between co-legislators were reached on the Commission's proposals relating to **prudential requirements and supervision of investment firms**, **investment funds**, **growth markets for SMEs** and **crowdfunding**.

As part of the **Sustainable Finance agenda**, two proposals ("**Disclosure Regulation**" and "**Benchmark Regulation**") were adopted and political agreement was reached by the co-legislators on the "**Taxonomy Regulation"** in December 2019. Other initiatives contributed to this agenda: the work on **Delegated Acts on fiduciary duties** integrating sustainability risks under various directives, the creation of a Project Task Force on climate-related reporting under the EFRAG Corporate Reporting Lab and the launch of the **International Platform on Sustainable Finance.**

The Commission also implemented a large part of the **FinTech Action Plan**. Among the key achievements, the publication of the **Expert Group on Regulatory Obstacles to Financial Innovation (ROFIEG)'s report on Regulation, Innovation and Finance** and the setting-up of the **European Forum for Innovation Facilitators (EFIF)** under the auspices of the European Supervisory Authorities (ESA's) Joint Committee, are worth mentioning. The Commission also established the **EU FinTech Lab** to enable supervisory authorities to better understand the potential and challenges raised by the use of new technologies in finance.

The Commission also advanced on other important areas related to the **revision of the Delegated Regulation of Solvency II**, the implementation of the **Securitisation Regulation (STS)**, the **regulatory framework for Prospectuses** and the **Markets in Financial Instruments Regulation (MiFIR).**

Deeper and Fairer Internal Market with a Strengthened Industrial Base

In 2019, in the context of the broad **review of the European System of Financial Supervision,** agreements between co-legislators were found on the reviews of the mandate of the European Supervisory Authorities and of the **European Systemic Risk Board (ESRB)**. In several other key areas progress was made, such as in **assets management** with the adoption of a **proposal on cross-border distribution of investment funds**, on **pensions** with the adoption of a Regulation creating a legal framework for a Pan-European Personal Pension product (PEPP), on **corporate reporting** with the publication of a **Fitness Check on supervisory reporting requirements in EU financial legislation** and on **retail financial services** in the context of the implementation of the Payment Services Directive 2 (PSD2), the mortgage credit directive and the revised cross-border payments regulation.

A Deeper and Fairer Economic and Monetary Union

Throughout 2019, the work towards the completion of the **Banking Union** has continued, yet progress on the European Deposit Insurance Scheme (EDIS) has been limited. The '**banking reform package'** proposed by the Commission in November 2016 was adopted by co-legislators in April 2019. In addition, DG FISMA has continued its preparatory work on the **implementation of the finalised Basel III framework.**

The inter-institutional negotiations on the Commission proposals to **fostering the development of secondary markets for NPLs** continued in 2019. In April 2019, co-legislators agreed on the legislative text **amending the Capital Requirements Regulation**. Concerning the proposal for a **Directive on loan servicers and transfer of Non-Performing Loans (NPLs)**, co-legislators decided to split it in two parts (credit servicers/purchasers part and the collateral part).

Following agreements in early 2019, the text of the **EMIR REFIT** regulation, which aims to simplify rules and reduce regulatory burdens for market participants (notably for non-financial counterparties, pension funds and small financial counterparties) without compromising financial stability, was published in May 2019 in the Official Journal. The text of the regulation **EMIR CCP supervision** strengthens the EU's CCP supervisory framework to better anticipate and mitigate risk coming from EU CCPs and from systemic third-country CCPs servicing EU clients, was published in the Official Journal in December 2019. On **post-trade**, the international and Brexit dimensions remained important. Measures were taken under EMIR and SFTR to exempt UK central bank and public bodies managing the public debt from the specific requirements in case of non-agreement on UK withdrawal from the EU. In addition technical amendments were adopted to the December 2018 financial market infrastructure measures to take into account the extension of the negotiations under Article 50.

Other work carried out in 2019

International dimension: During 2019, DG FISMA has continued work to fostering international regulatory and supervisory coordination both in multilateral and bilateral contexts, to setting out its equivalence policy, including adopting a number of new decision, and in some cases repealing existing decisions. In 2019 DG FISMA also worked to address issues related to the UK withdrawal.

Safeguarding consumers' interests in financial services: In 2019, the Commission continued its work to ensure that the views of civil society, including consumers and other financial services end-users are fully taken into account in EU policy making on financial services.

b) Key Performance Indicators (KPIs)[2]

General objective 1: A New Boost for Jobs, Growth and Investment

Specific objective 1.1: Companies raise more equity in public and private capital markets

Result indicator: Publicly issued equity: new equity issuance year-on-year growth.
Source of data: European Central Bank, Data Warehouse. FMP (ECB data)

Baseline	Interim Milestone		Target	Latest known results
2014 Average	2015	2016	2020	
4‰	4.5‰	5‰	5.5‰	3.11‰ 2019 (average Dec 2018-Nov 2019)

Specific objective: 1.2 Debt funding for the corporate sector, in particular fo SMEs, is more diversified

Result indicator: Share of market funding in total outstanding debt.
Source of data: European Central Bank, Data Warehouse. FMP (ECB data file)

Baseline	Interim Milestone (please introduce as many columns as the number of milestones)				Target	Latest known results
2014 Average	2015	2016	2017	2018	2019	November 2019
16.3%	16.6%	19.9%	17.2%	17.5%	17.8%	21.1%

Specific objective 1.4: Banks, insurance companies and pension funds have greater incentive to invest in and lend to the real economy in a sustainable way, including investing in long-term European projects

Result indicator: Insurance companies' investments in infrastructure.
Source of data: European Insurance and Occupational Pensions Authority (EIOPA) as of mid-2016.

Baseline	Interim Milestone	Target	Latest known results
mid-2015 Before the adoption of a Solvency II amendment on infrastructure.	2018	2019	
No quantitative data available at this point. EIOPA can provide data as of mid-2016	A first increase	A general increase in insurance companies' investment in infrastructure by 2019	2.10% of total investment

Specific objective 1.6: An increased cross-border investment flow

Result indicator: Average of inward and outward intra-EU foreign direct investment

2 Performance Indicators (KPIs and Result Indicators) are chosen in order to illustrate key developments in areas covered by FISMA's policy work. Some of the Performance Indicators may also depend on other factors beyond FISMA's control.

(FDI) flows divided by GDP. **Source of data:** Eurostat: Balance of Payments, European Union direct investments [bop_fdi6] and GDP and main components (output, expenditure and income) [nama_10_gdp].			
Baseline 2013	**Interim Milestone** 2016	**Target** 2018 A higher index indicates higher new cross-border direct investment during the period in relation to the size of the economy as measured by GDP. If this index increases over time, intra-EU direct investment is becoming more integrated.	**Latest known results** Q3 2019
2%	Stable increase	Stable increase	-2.22%

General objective 2: A Deeper and Fairer Internal Market with a Strengthened Industrial Base				
Specific objective 2.5: The financial regulatory framework is evaluated, appropriately implemented and enforced across the EU				
Baseline 2015	**Interim Milestone**		**Target** 2020	**Latest known results** 2019
	2017	2018		
No specific benchmark is set for the non-conformity assessment. However, a three-year benchmark is set for all Article 258 TFEU infringements. There are currently 14 cases still open >3 years since their registration.	10	5	No cases open three years after their registration by 2020	0 non-conformity infringement outside of benchmark

c) Key conclusions on Financial management and Internal control (executive summary of section 2.1)

In accordance with the governance arrangements of the European Commission, (the staff of) DG FISMA conducts its operations in compliance with the applicable laws and regulations, working in an open and transparent manner and meeting the expected high level of professional and ethical standards.

To ensure the achievement of policy and management objectives, the Commission has adopted a set of internal control principles, based on international good practice. The financial regulation requires that the organisational structure and the internal control systems used to implement the budget be set up in accordance with these principles. DG FISMA has assessed its internal control systems during the reporting year and has concluded that the internal control system is present and functioning but that some improvements are needed. Please refer to AAR section 2.1.3 for further details**.**

In addition, DG FISMA has systematically examined the available control results and indicators, including those for supervising entities to which it has entrusted budget implementation tasks, as well as the observations and recommendations issued by the internal auditor and the European Court of Auditors. These elements have been assessed to determine their impact on management's assurance about the achievement of the control objectives. Please refer to Section 2.1 for further details.

In conclusion, management has reasonable assurance that, overall, suitable controls are in place and working as intended; risks are being appropriately monitored and mitigated; and necessary improvements and reinforcements are being implemented. The Director General, in his capacity as Authorising Officer by Delegation has signed the Declaration of Assurance.

d) Provision of information to the Commissioner(s)

In the context of the regular meetings during the year between the DG and the Commissioner(s) on management matters, the main elements of this report and assurance declaration have been brought to the attention of Executive Vice-President Valdis Dombrovskis, responsible for An Economy that Works for People.

1. KEY RESULTS AND PROGRESS TOWARDS THE ACHIEVEMENT OF THE COMMISSION'S GENERAL OBJECTIVES AND DG'S SPECIFIC OBJECTIVES

1.1 New boost for jobs, growth and investment

Capital Markets Union

The **Capital Markets Union (CMU)** aims at reforming the European Union's financial system with a view to deepening financial integration and tackling the barriers to the cross-border flow of capital, facilitating access of SMEs to finance and supporting diversification of their funding, allowing for the effective mobilisation of capital to fund innovation and transition to a climate-neutral economy and building resilience to shocks.

In its March 2019 Communication on *'Capital markets Union: Progress on building a single market for capital for a strong Economic and Monetary Union',* accompanied by a staff working document outlining details on the various initiatives launched by the DG, the Commission presented an overview of the progress made on CMU. This Communication recalled that the Commission delivered all the main building blocks set out in the Action Plan on the CMU and the CMU mid-term review.

As part of the work towards the completion of the CMU, in 2019, political agreements between co-legislators were reached on the Commission's proposals relating to **prudential requirements and supervision of investment firms**, **investment funds**, **growth markets for SMEs** and **crowdfunding**.

In December 2019, the texts for an integrated **covered bond framework** were adopted and published in the Official Journal. This framework aims at fostering the use of covered bonds as a cheap and stable long-term source of funding for banks throughout the EU.

Sustainable finance

As part of the **Sustainable Finance agenda**, during 2019, two proposals ("**Disclosure Regulation**" and "**Benchmark Regulation**") were adopted and political agreement was reached by the co-legislators on the "**Taxonomy Regulation"** in December 2019. The **Disclosure Regulation** lays down rules on transparency as regards integration of sustainability risk as well as requires transparency with regard to the consideration of adverse sustainability impacts. In addition, in February 2019, the Commission finalised the negotiations of a proposal to promote the development of two new categories of **low carbon benchmarks**, in line with the Action Plan on Sustainable finance. The Climate Transition Benchmark and Paris Aligned Benchmark meant to promote the use of environmental, social and governance (ESG) factors in the design of investment management strategies. As part of the agreement, the co-legislators agreed to extend the transitional period for critical benchmarks and for benchmarks administered in third-countries. Moreover, the Commission updated the guidelines for companies on **non-financial reporting**, specifically with regard to climate-related information based on the work of the Technical Expert Group on Sustainable Finance (TEG). In 2019, the Commission also carried out the bulk of the work on **Delegated Acts on fiduciary duties** in relation to the integration of sustainability risks under the Undertakings for Collective Investment in Transferable Securities Directive (UCITS), the Alternative Investment Fund Managers Directive (AIFMD), the Solvency II Directive, the Insurance Distribution Directive (IDD) and the Directive on Markets in Financial Instruments II (MiFID II) with a view of final adoption by Q1 2020. Finally, in 2019, the EFRAG

Corporate Reporting Lab appointed a Project Task Force on climate-related reporting, which delivered its report in early 2020.

With regard to the international dimension of the work on sustainable finance, in October 2019, the European Union together with other public authorities from major jurisdictions[3] launched the **International Platform on Sustainable Finance** with a view to achieve better coordination on green taxonomies, disclosures, bonds and labels, and to bring together different initiatives on environmentally sustainable finance and investment.

Financial Technology (Fintech)

The Commission followed-up the **FinTech Action Plan** during 2019. In December 2019, the expert group on regulatory obstacles to financial innovation (ROFIEG) presented a set of recommendations looking at possible barriers to firms scaling-up and expanding across the EU. In April 2019, the Commission received two Joint Advices from the ESAs on risks and opportunities of crypto assets and Initial Coin Offerings (ICOs) and on management of Information Communication Technology (ICT) risks in the financial sector.

On the issue of facilitating innovation and the potential role of regulatory sandboxes, the Commission received advice from the ESAs on how to enhance cross-border coordination and cooperation between innovation facilitators to support information sharing between NCAs and allow firms to scale up across the EU more efficiently. As a result, the Commission decided to set up the **European Forum for Innovation Facilitators** under the auspices of the ESA's Joint Committee with the purpose to promote greater coordination and cooperation between innovation facilitators to support the scaling-up of FinTech across the single market.

The Commission also established the **EU FinTech Lab** to enable supervisory authorities to better understand the potential and challenges raised by the use of new technologies in finance.

Securities and funds

The Securitisation Regulation (STS) entered into effect in January 2019. Since then, the Commission has continued working on its implementation and finalised the adoption of a number of related delegated and implementing acts, while the adoption of the delegated act on fees on securitisation repositories is still pending. Throughout 2019, together with the ESAs, the Commission has continued to monitor market developments with a view to ensuring that the Regulation delivers the intended impact – the development of high-quality securitisation in Europe. DG FISMA also finalised a number of implementing and delegated acts related to other financial markets legislation, including two technical standards to reflect changes introduced following the adoption of the STS Regulation.

A new regulatory framework for Prospectuses started to apply in July 2019. In addition, the Commission adopted a number of Level 2 measures as part of its implementation. Furthermore, an accompanying set of delegated and implementing acts that issuers and investment firms needed to prepare for the change was also adopted. In particular, the regulatory technical standards pertains to key financial information in the summary of a prospectus, the publication and classification of prospectuses, advertisements for securities, supplements to a prospectus, and the notification portal. The delegated act addressed the format, content, scrutiny and approval of the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market.

[3] Argentina, Canada, Chile, China, India, Kenya, Morocco.

As far as the **Markets in Financial Instruments Regulation (MiFIR)** is concerned, DG FISMA started to prepare for the Report on the functioning of the framework that is due to be delivered to the European Parliament and Council in 2020. To that effect, the Commission sent a mandate to ESMA to start the preparatory work for the assessment of various topics open for review.

Work on risk-free rates - During 2019 DG FISMA services have been largely mobilised towards ensuring a smooth transition for risk-free rates as well as IBOR rates. In October 2019, the ECB released for the first time the €-short term rate (€STR) which will replace EONIA as the reference rate in the EU. Concurrently, the Commission is engaged in the preparation of an orderly phase-out of LIBOR and possibly EURIBOR.

Insurance

With regard to the insurance and pension areas, in 2019, a **revision of the Delegated Regulation of Solvency II** (the EU's prudential framework for insurance companies) was completed, based on an evaluation carried out in 2018. The amended Regulation was adopted in March 2019 and successfully completed scrutiny by the co-legislators. In addition to various technical improvements to the Regulation, the revision helps insurers to investing in long-term equity and private debt by reducing the capital requirements for such investments if certain conditions are met. Co-legislators considered the proposed **amendments to the Motor Insurance Directive** and formal positions were adopted in 2019, allowing trilogue discussions to begin early in 2020.

1.2 Deeper and Fairer Internal Market with a Strengthened Industrial Base

Review of the European System of Financial Supervision

Throughout 2019, DG FISMA continued to engage with **co-legislators to ensure maximum progress of the pending proposals** being part of the broader **review of the European System of Financial Supervision.**. The **review of the European Systemic Risk Board (ESRB)** was successfully concluded in 2019. The revised regulation designates the ECB president as ESRB chair, adds the Single Supervisory Mechanism and the Single Resolution Board to the ESRB membership and requires more cooperation with relevant stakeholders. Co-legislators also reached a political agreement on the **review of the mandate of the European Supervisory Authorities (ESAs' Review)**, with strengthened governance, a stronger international mandate notably to monitor effects of equivalence decisions and in particular reinforcing anti money-laundering rules.

Asset management

The proposal on **cross-border distribution of investment funds** was adopted and published in the Official Journal in July 2019. This important piece of legislation will contribute to reducing the costs of setting-up funds, and will lead to economies of scale and a larger choice of funds. The new rules will fully apply by August 2021.

The amendment to the Level 2 rules on the **Packaged Retail and Insurance-based Investment Products Delegated Regulation (PRIIPs**) was adopted. This amendment aligns rules for multi-option products with UCITS and retail AIFs as underlying investment options with the extended temporal exemption from PRIIPs for UCITS. However, the delivery of regulatory technical standard on cost disclosures was postponed due to pending works on Level 2 rules on PRIIPS.

Pensions

The Commission's 2017 legislative proposal for a **Regulation creating a legal framework for a Pan-European Personal Pension product (PEPP)** was adopted by the co-legislators in 2019. The PEPP is a voluntary personal pension scheme that will complement existing public and occupational pension systems, as well as national private pension schemes. The PEPP Regulation aims to give savers more choice and provide them with more competitive personal pension products when saving for retirement, while enjoying strong consumer protection. PEPPs can be offered across the EU by a broad range of financial providers such as insurance companies, asset managers, banks, certain investment firms and certain occupational pension funds. PEPPs can be offered on the market one year after the necessary implementing rules are in place.

Retail financial services and payments

In 2019, the Commission focused its efforts in the payment field on the **implementation of Payment Services Directive 2 (PSD2)**, liaising with the European Banking Authority in the context of the Q&A process, as well as taking actions to facilitate a smooth transition towards secure communication interfaces by innovative market players. In addition, the negotiations on the **revised Cross-border Payments Regulation** were finalised and the Commission issued new guidance on its implementation, in particular with regard to transparency requirements for **currency conversion** in the context of card-based transactions. The Commission has also dedicated resources to the implementation and the upcoming reviews of the **Mortgage Credit Directive and of the Payments Account Directive** and it has launched several studies to inform the upcoming reviews. Due to late transposition of both Directives, both reviews had to be postponed to 2021.

Reporting

In 2019 DG FISMA published its **Fitness Check on supervisory reporting requirements in EU financial legislation** in the form of a Staff Working Document. It concluded that EU supervisory reporting requirements are largely effective, remain relevant, and bring EU value-added. However, a number of issues in the development process, adoption, set-up, and implementation of these requirements significantly reduce their efficiency and coherence, and have an adverse impact on the quality and usability of the reported data. During 2020, DG FISMA will set out the way forward in this area. The **Union programme to support specific activities in the field of financial reporting and auditing** is also worth mentioning, as it provides co-financing of activities of three organisations operating in the field of financial reporting and auditing: the International Financial Reporting Standards Foundation (IFRS Foundation), the European Financial Reporting Advisory Group (EFRAG) and the Public Interest Oversight Board (PIOB).

1.3 Deeper and Fairer Economic and Monetary Union

Banking Union

Throughout 2019, the work towards the completion of the **Banking Union** has been an important part of DG FISMA's workload. However, progress on the **European Deposit Insurance Scheme (EDIS)** has been limited despite the Commission having urged co-legislators to undertake swift actions to advance in this area. A majority of Member States could support the Commission proposal, but it has been politically difficult to move forward as long as some Member States preferred to continue progress first in terms of risk reduction. Discussions on the way forward for EDIS are ongoing and are intrinsically linked with progress in further strengthening the Banking Union, the crisis management framework in particular. The '**banking reform package'** proposed by the Commission in November 2016, which consisted in the adoption of revised rules on Capital

Requirements Regulation and Directive, Single Resolution Mechanism Regulation, Bank Recovery and Resolution Directive, was adopted by co-legislators in April 2019.

On the Commission legislative proposal for an enabling framework for **Sovereign Bond Backed Securities (SBBS),** the European Parliament adopted its first reading position in April 2019 while the Council has not yet formalised its position. This proposal may help reducing banks' home bias and increase the supply of assets in financial markets.

Banking

DG FISMA has continued its preparatory work on the **implementation of the finalised Basel III framework.** To this end, DG FISMA organised a public consultation[4] (closed on 3 January 2020) and held a major conference.

Addressing the issue of Non-Performing Loans in the EU

With a view to facilitating the development of a European approach to **fostering the development of secondary markets for NPLs**, in 2018, the Commission put forward a legislative package, which included a **proposal for a Regulation amending the Capital Requirements Regulation and a proposal for a Directive on credit services, credit purchasers and the recovery of collateral**. The proposal for a regulation, for which co-legislators' agreement was found in April 2019, aims to insuring that institutions set aside, in a timely manner, sufficient provisions for NPLs. The proposal for a directive aimed at simplifying and potentially harmonise licensing requirements for third-party loan servicers and help removing impediments to the transfer of NPLs by banks to third parties, while safeguarding consumers' rights. -Co-legislators decided to split this proposal in two parts (credit servicers/purchasers part and the collateral one).

Derivatives and clearing

Since the financial crisis and the G20 reforms to enhance centralised clearing, **Central Counterparties (CCPs)** have become increasingly important actors in managing risk in the financial system. Two legislative proposals were adopted to improve the efficiency and stability of EU derivatives markets in 2018. The EMIR CCP supervision proposal strengthens the supervisory framework for CCPs, in particular vis-à-vis systemic third-country CCPs. The EMIR REFIT simplified rules and reduced regulatory burdens, notably for non-financial counterparties, pension funds and small financial counterparties without compromising financial stability. Following agreements in early 2019, EMIR REFIT was published in May 2019 and EMIR CCP supervision in December 2019. The delayed publication meant that subsequent technical measures under EMIR were postponed.

The international dimension remained important. Building on the December 2018 Brexit contingency package, further measures were adopted. First, measures were taken under EMIR and SFTR to exempt UK central bank and public bodies managing the public debt from the requirements. Second, technical amendments were adopted to the December 2018 financial market infrastructure measures to take into account the extension of the negotiations under Article 50.

4 https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/12015-Alignment-EU-rules-on-capital-requirements-to-international-standards-prudential-requirements-and-market-discipline-

1.4 Other work carried out in 2019

International dimension

During 2019, DG FISMA continued work to fostering international regulatory and supervisory coordination. To this end, DG FISMA contributed to the EU's positions in G7 and G20, and played an active role in international standard setting bodies, such as the Financial Stability Board, the Basel Committee and the International Association of Insurance Supervisors.

Moreover, DG FISMA has further intensified its relations with key jurisdictions through bilateral dialogues. In this respect, DG FISMA actively contributed to the implementation of the financial services and investment chapters of the free-trade agreements concluded by the Union as well as to the definition of those chapters in the agreements under negotiation. DG FISMA pursued its work to consider the recognition of third country regulatory frameworks as equivalent, which is a key instrument for the EU to effectively manage cross-border activity of market players in a sound and secure prudential environment with third-country jurisdictions that adhere to, implement and enforce rigorously the same high standards of prudential rules as the EU. The Commission set out its policy with the adoption of a Communication on equivalence in July 2019. More specifically, the Commission adopted equivalence decision for Singapore in regard to their derivatives trading platforms, for Japan for transaction requirements under EMIR and for Australia and Singapore that will allow EU entities to carry on using significant benchmarks administered in Australia and in Singapore when the transitional period for third-country benchmarks expires at the end of 2021. The Commission also adopted an adequacy decision for China in the area of statutory audit. The Commission furthermore adopted a number of decisions in relation to Credit Rating Agencies, including to repeal existing decisions as some of the third countries which had been recognised equivalent in the past had not upgraded their regulatory and supervisory system.

DG FISMA worked intensively on addressing various issues related to the withdrawal of the United Kingdom from the EU. Jointly with the European Supervisory Authorities and the ECB, it analysed risks to financial stability deriving from a withdrawal without an agreement and worked on the mitigation of its impact. DG FISMA also prepared a number of measures to address risks to financial stability (see for instance the section on derivatives/clearing) and worked with Member States on the design of national contingency measures. Besides, DG FISMA provided guidance and information on the impact of the withdrawal to citizens and firms.

Monitoring and assessing financial markets and the financial system

DG FISMA has continued the monitoring of financial markets, institutions and policies at country level in the context of the EU surveillance framework and in cooperation with other DGs throughout 2019. Some of this work is provided in regular market reports delivered to a wide range of recipients across the Commission. In addition, DG FISMA published its yearly European Financial Stability and Integration review. Among other topics, it reports on developments in finance, markets and banking, and has a special focus on financial stability.

Safeguarding consumers' interests in financial services

In 2019, the Commission continued its work to ensure that the views of civil society, including consumers and other financial services end-users are fully taken into account in EU policy making on financial services. In particular, the Commission continued to implement two grant programmes to Better Finance and Finance Watch as beneficiaries. The Commission also continued to manage the network of alternative dispute resolution bodies in the area of financial services, FIN-NET, to facilitate the resolution of cross-border complaints about financial services and to obtain information on consumer issues in the Member States. Finally, the Financial Services Users Group (FSUG) continued its work producing opinions and advice to the Commission for the inclusion of the users' angle in EU policy making.

Enforcement of EU financial services acquis

DG FISMA focused at ensuring timely and complete transposition of EU Directives, examined the notified national transposition measures to verify whether they fully and correctly transposed EU Directives and engaged with the Member States where needed, including via infringement proceedings.

2. ORGANISATIONAL MANAGEMENT AND INTERNAL CONTROL

2.1 Financial management and internal control

Assurance is an objective examination of evidence for the purpose of providing an assessment of the effectiveness of risk management, control and governance processes. This examination is carried out by management, who monitors the functioning of the internal control systems on a continuous basis, and by internal and external auditors. The results are explicitly documented and reported to the Director-General or the Risk Management and Internal Control Director. These are: (1) the reports of DG FISMA's Authorising Officers; (2) the reports of Authorising Officers in other DGs managing DG FISMA's budget appropriations; (3) the annual assessment of the effectiveness of DG FISMA's internal control framework and the assessment of DG FISMA's costs of controls; (4) the reports on the *ex-post* checks performed on a sample of transactions; (5) the register on exceptions and non-compliance events (6) the limited conclusion of the Internal Audit Service (IAS) on the state of internal control and (7) the observations and the recommendations reported by the European Court of Auditors (ECA).

These reports result from a systematic analysis of the evidence available. This approach provides sufficient guarantees as to the completeness and reliability of the information reported and results in a complete coverage of the budget delegated to the Director-General of DG FISMA. This section is for reporting the control results and other relevant elements that support management's assurance. It is structured into (a) Control results, (b) Audit observations and recommendations, (c) Effectiveness of internal control systems, and resulting in (d) Conclusions on the assurance.

2.1.1 Control results

This section is for reporting and assessing the elements identified by management which support the assurance on the achievement of the internal control objectives[5]. The DG's assurance building and materiality criteria are outlined in AAR Annex 4. Annex 5 outlines the main risks together with the control processes to mitigate them and the indicators used to measure the performance of the relevant control systems.

2.1.1.1 Coverage by relevant control system

DG FISMA total expenditure (payments) in 2019 was **EUR 58 428 481** of which **EUR 1 509 770** administrative expenditure and **EUR 56 918 711** operational expenditure. The majority of DG FISMA operational expenditure is linked to the payment of the contributions to the ESAs (74%) with 15% of operational expenditure going to grants and 11% to procurement. The administrative expenditure of DG FISMA corresponds to 2,5 % of the total payments made.

A more detailed breakdown of DG FISMA's expenditure is provided in Annex 10.

[5] 1) Effectiveness, efficiency and economy of operations;2) reliability of reporting; 3) safeguarding of assets and information; 4) prevention, detection, correction and follow-up of fraud and irregularities; and 5) adequate management of the risks relating to the legality and regularity of the underlying transactions, taking into account the multiannual character of programmes as well as the nature of the payments (FR Art 36.2).

2.1.1.2 Mandatory reporting as per Financial Regulation

DG FISMA did not record any of the following cases:

- 'Confirmation of instructions' (FR art 92.3)
- Cases of financing not linked to costs (FR art 125.3)
- Financial Framework Partnerships >4 years (FR art 130.4)
- Cases of flat rates >7% for indirect costs (FR art 181.6)

DG FISMA recorded **five cases of "Derogations from the principle of non-retroactivity of grants pursuant to Art 193 FR"** (FR art 193.2). Only the costs incurred after the submission of the application were accepted. This is justified by the fact that even if signed later DG FISMA's grants are always awarded based on a calendar year from 1st January to 31st December.

DG FISMA did not record any event or unmitigated critical risk identified by management which might have a significant impact on achieving the internal control objectives and therefore has the assurance on the achievement of each relevant internal control objective. The control indicators and results are described in detail in the following paragraphs, Annex 5, Annex 10 and Annex 11.

2.1.1.3 Effectiveness = the control results and benefits

2.1.1.3.1 Legality and regularity of the transactions

DG FISMA is using internal control processes to ensure the adequate management of the risks relating to the legality and regularity of the underlying transactions it is responsible for, taking into account the multiannual character of programmes and the nature of the payments concerned.

The control objective linked to legality and regularity is to ensure that the value of the DG's financial operations not complying with applicable contractual or regulatory provisions does not exceed the **materiality criteria of 2 %** established in Annex 4. The legality and regularity of transactions is measured against the assessment of the results of the ex-ante and ex-post controls made by DG FISMA on its operations. These controls are described in detail in Annex 5 and are linked to a comprehensive set of identified risks and indicators.

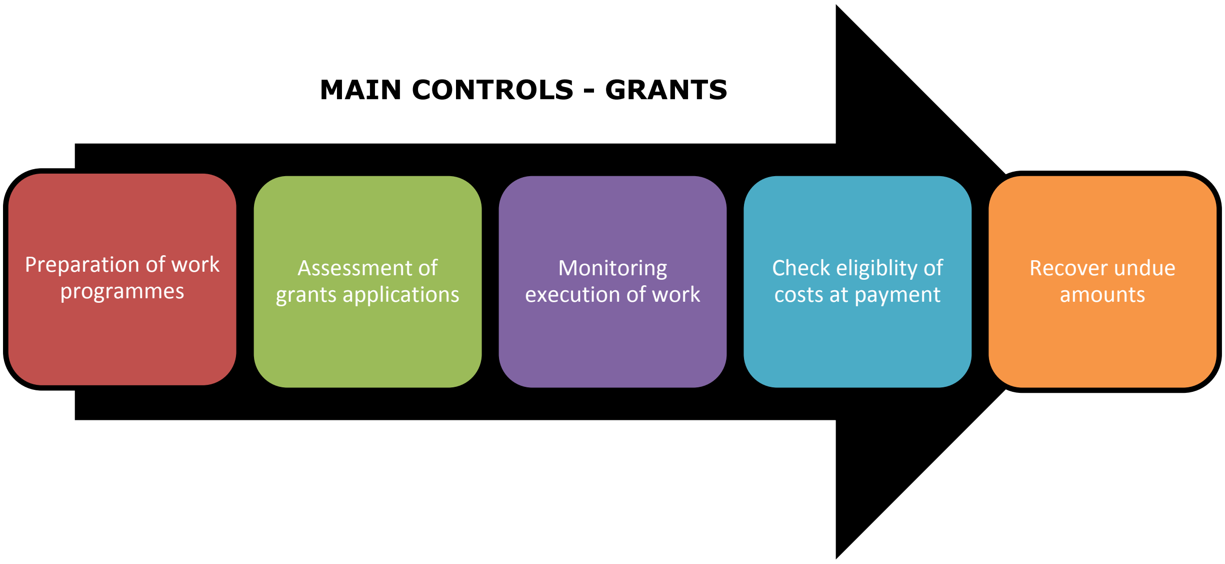
To process operations, DG FISMA uses a **fully centralised model**. The financial aspects of the operations are verified by a central team of financial agents with the necessary competence to ensure the overall legality and regularity of operations. This improves the capacity of DG FISMA to prevent, detect and correct errors and to ensure a coherent and systematic application of the rules established at corporate and DG levels.

DG FISMA's assurance on the operations delegated to other DGs by cross-subdelegation is based on the reports received from the delegated DGs. Based on these reports, DG FISMA detected no events, control results or issues that could have a material impact on assurance.

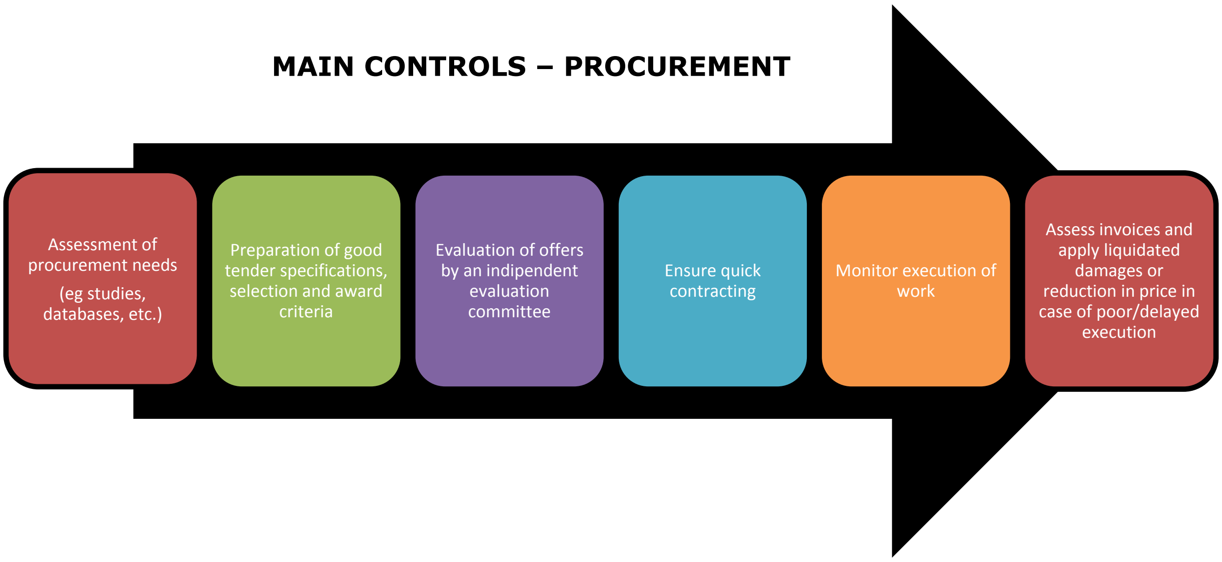
Direct management – Grants and procurement

The ex-ante and ex-post checks carried out by DG FISMA on its operations led to both qualitative and quantitative benefits in its procurement and grants processes.

The ex ante controls on grants processes are focused on both the financial and operational aspects of the operations. They aim at ensuring that the work executed by the beneficiaries contributes to the political priorities of DG FISMA as outlined in the work programme and that the costs claimed are eligible.



The ex ante controls on procurement processes are aimed at ensuring that the budget is well used and focused on actual needs and that the tender specifications are adequately drafted to meet these needs. They also ensure that contractors deliver the services requested as planned and that deviations are proportionally penalised.



Overall, DG FISMA **saved a total amount of EUR 317 085** by applying liquidated damages for partial or delayed implementation of contractual provisions (EUR 267 318[6]) or by rejecting ineligible costs in grants at the moment of the commitment or payment (EUR 49 767[7]).

DG FISMA also suspended 30 payments (9% of the total) to request clarifications on the eligibility of costs and/or the work carried out in procurement or grants allowing for example the identification of ineligible costs and enhancing the quality of the reports submitted.

These quantitative benefits are also complemented by several qualitative benefits linked to the prevention of future errors, the absence of formal complaints from tenderers and

6 Corresponding to more than the double of the costs of control linked to the financial transactions and monitoring and payment of operational contracts.

7 Of which EUR 40 320 rejected at the stage of contracting and representing almost the double of the costs of controls linked to the programming and contracting stage of grants.

calls for tenders not awarded.

The exceptions and non-compliance events recorded by DG FISMA in 2019 are mainly related to the reimbursement of travel expenses of experts, mission orders, procedural encoding matters or events beyond DG FISMA's control. They are due to specific circumstances and their budgetary implications are very low. None of them entails any major systemic weakness putting at risk the achievement of the DG's objectives.

Highlights on DG FISMA's control results in procurements and grants

- **5,7%** of transactions corrected before validation
- **Zero** formal complaints received
- **EUR 267 318** of liquidated damages/reduction in price - contracts
- **EUR 1 205 969** of ineligible costs rejected at commitment/payment level leading to **EUR 49 767 savings** - grants
- **0** tenders not awarded
- **30 payments (9%)** suspended for clarifications

During the ex-post checks carried out in 2019 on a sample of its operations, DG FISMA did not detect any major error but only administrative encoding errors. The most recent accounting quality checks also showed substantial improvements and high quality standards.

Indirect management – European Supervisory Authorities (ESAs)

In the context of the participation of the DG's representatives in the Board of Supervisors and the Management Board of the ESAs and DG FISMA regular working relations with them, and despite the delays and complications related to the nomination of the new Executive Director of the European Banking Authority, **no events or weaknesses of substantial nature were reported/detected** that could affect the reputation of the DG, put into question the legality and regularity of ESAs' operations or raise concerns about fraudulent activities linked to their transactions.

In addition, while assessing the programming documents submitted by the ESAs in the context of the annual budgetary process, their requests for contribution submitted in 2019 and their actual cash flow, DG FISMA did not detect any illegal or irregular activity.

Within the limits of DG FISMA's governance remit on the ESAs (see Annex 8 for more details), we did not detect nor were we made aware of any fact that could prejudice the good working relations that have been established or the reliability of the key conclusions mentioned under point C) of the Executive summary.

Ex post checks and on-the-spot checks

Ex-post checks **on 23 operations (10 commitments and 13 payments**) were carried out by DG FISMA covering the first semester 2019[8]. This provides a reliable overview of the level of compliance of the internal control processes in place. The checks revealed only **minor procedural errors** which did not require **any financial correction**.

DG FISMA used to carry out on-the-spot checks every two years on the five grant beneficiaries identified in the basic act of the Union programmes managed. As also mentioned in the AAR 2017 and 2018, maintaining this frequency is considered

[8] The sampled commitments represented 42 % of the total committed amount and 24 % in number of transactions, while the sampled payments counted for 40 % in total paid amount and 9 % in number of transactions.

disproportionate compared to the type of grants managed, the nature of the beneficiaries receiving funding and the amounts involved. For the above reasons and considering that the implementation of grants is monitored on a continuous basis by DG FISMA through in depth ex ante checks, on-the-spot checks will be carried out on the basis of a risk assessment.

Conclusion on legality and regularity

Results of the ex-ante and ex post controls mentioned in the previous paragraphs as well as their qualitative and quantitative results described in detail in Annex 10 suggest that the control objective has been achieved. The controls in place are proportionate compared to the risks entailed by DG FISMA’s operations and adequate to ensure the legality and regularity of its transactions.

Estimated overall amount at risk at closure

In the context of the protection of the EU budget, the DGs' estimated overall risk at payment, estimated future corrections and risk at closure are consolidated at Commission level. DG FISMA's data is shown in the Table below and its accompanying notes. The estimated overall risk *at payment* for 2019 expenditure is EUR 0,25 million. This is the AOD's best, conservative estimation of the amount of *relevant expenditure* during the year (EUR 52 million) not in conformity with the contractual and regulatory provisions applicable at the time the payment was made. This expenditure will subsequently be subject to ex-post controls and a proportion of the underlying errors will be detected and corrected in successive years. The conservatively estimated future corrections for 2019 expenditure are EUR 0,1 million. This is the amount of errors that the DG conservatively estimates will be identified and corrected by controls planned to be carried out in succeeding years.

The difference between those two amounts leads to the **estimated overall risk *at closure* for the 2019 expenditure of EUR 0,15 million.**

Table - Estimated overall risk at closure

DG FISMA	Payments made (2019; €)	New prefinancing (2019; €)	Cleared prefinancing (2019; €)	Relevant expenditure (2019; €)	Average Error Rate (*weighted* AER; %)	Estimated overall amount at risk *at payment* (2019; €)	Average Recoveries and Corrections (%)	Estimated future corrections (and deductions) (2019; €)	Estimated overall amount at risk *at closure* (€)
(1)	*(2)*	*(3)*	*(4)*	*(5)*	*(6)*	*(7)*	*(8)*	*(9)*	*(10)*
Programme, Budget Line(s), or other relevant level				= (2) – (3) + (4)		= (5) x (6)		= (5)x(8)	= (7) – (9)
Financial Stability, Financial Services and Capital Markets Union	**58 428 481**	**48 278 538**	**41 438 552**	**51 588 495**	**0,5%**	**257 942**	**0,2%**	**103 177 €**	**154 765 €**

Accompanying notes:

(2) *Payments made or equivalent, e.g. expenditure registered in the Commission's accounting system, accepted expenditure or cleared pre-financing. In any case, this means after the preventive (ex-ante) control measures have already been implemented earlier in the cycle. In all cases of Co-Delegations (Internal Rules Article 3), "payments made" are covered by the Delegated DGs. For Cross-SubDelegations (Internal Rules Article 12), they remain with the Delegating DGs. In all cases of Co-Delegations (Internal Rules Article 3), "payments made" are covered by the Delegated DGs. For Cross-SubDelegations (Internal Rules Article 12), they remain with the Delegating DGs.*
(3) *New pre-financing actually paid by the department itself during the financial year (i.e. excluding any pre-financing received as a transfer from another department). "Pre-financing" is covered as in the context of note 2.5.1 to the Commission annual accounts (i.e. excluding "Other advances to Member States" (note 2.5.2) which is covered on a purely payment-made basis). "Pre-financing paid/cleared" are always covered by the Delegated DGs, even for Cross-SubDelegations*
(4) *Pre-financing actually cleared during the financial year (i.e. their 'delta' in the Financial Year 'actuals', not their 'cut-off' based estimated 'consumption').*
(5) *For the purpose of equivalence with the ECA's scope of the EC funds with potential exposure to legality & regularity errors (see the ECA's Annual Report methodological Annex 1.1), our concept of "relevant expenditure" includes the payments made, subtracts the new pre-financing paid out [& adds the retentions made], and adds the previous pre-financing actually cleared [& subtracts the retentions released; and any deductions of expenditure made by MS] during the FY. This is a separate and 'hybrid' concept, intentionally combining elements from the budgetary accounting and from the general ledger accounting.*
(6) *The average of 0.5% is used by DG FISMA as a conservative estimate because of the low risk type of expenditure of DG FISMA and the strong ex ante controls in place.*

2.1.1.3.2 Fraud prevention, detection and correction

DG FISMA has developed and implemented its own anti-fraud strategy since 2014, on the basis of the methodology provided by OLAF. It is updated every three years. **DG FISMA plans to update the antifraud strategy in 2020** based on the results of a new risk assessment and new methodology adopted by OLAF in 2019 (see also improvements of internal control in paragraph 2.1.3).

DG FISMA's anti-fraud strategy was last updated in 2017. It is focused on risks related to **regulatory capture** and possible **leaks of sensitive information**. Its implementation is being monitored twice a year in the context of the mid-term review of DG FISMA's Management Plan and the Annual Activity Report.

All actions planned in the antifraud strategy have been implemented with the necessary adjustments to tailor them to evolving needs[9]. Some of the actions were implemented later than initially planned and/or partially replaced by other more effective actions. This has not affected the well-functioning of DG FISMA's antifraud strategy that is an evolving tool and whose effectiveness is demonstrated by:

- The results of a **survey on antifraud carried** out in DG FISMA showing (1) a high level of awareness of DG FISMA's staff, (2) the absence of new major structural risks or weaknesses in the view of staff.
- The **absence of fraudulent cases** opened by OLAF in 2019[10].

One leak of sensitive information was detected in 2019 and immediately addressed by the adoption of measures to reinforce the protection of sensitive information in DG FISMA.

Considering the extent and nature of DG FISMA's expenditure, the **exposure to fraud entailing financial risks is low**. Nevertheless, DG FISMA consistently applies appropriate control measures to its transactions to detect any fraudulent activities. For example, procedures or transactions in procurement and grants entailing greater risks due to the amount involved pass through two levels of verification before being approved.

2.1.1.4 Efficiency = the Time-to-... indicators and other efficiency indicators

In 2019 DG FISMA revised its financial procedures while refocusing controls on areas of risk and adopted electronic circuits for almost all transactions. These changes will lead to time gains, reduction of paper consumption and more user-

[9] See Annex 10 for more details on 2019 antifraud actions.

[10] DG FISMA reported one potential case that was subsequently dismissed by OLAF.

friendly processes and checklists that facilitate the efficiency of controls and enhance the responsibility of each financial agent.

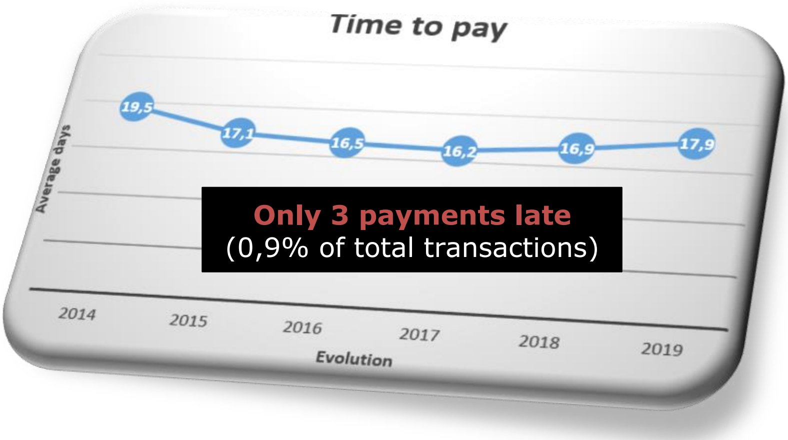
Time-to-award

In relation to procurement, all tenders were awarded within an **average of 96 days (18 days less than in 2018)** from the invitation to tender to the award. This constitutes an efficient result considering the technical and operational complexities involved in the preparation of high quality tender documents.

Since all beneficiaries of the grants programmes managed by DG FISMA are identified in a basic act, DG FISMA has no elements for reporting on time-to-inform or time-to-grant as required by the Financial Regulation for grants awarded through calls for proposals.

Time-to-pay[11]

The average time to make a payment in DG FISMA was **17,9 days**[12] (gross time including suspensions while average net payment time was 15,3 days) and remains in line with 2018 (16,9), 2017 (16,2), 2016 (16,5), 2015 (17,1 days) and 2014 (19,5 days) and within the maximum time-limits and targets required by the Financial Regulation.



Only **3 payments were processed late** corresponding to **0,9%** of the total payments made (i.e. 99,1% of payments were processed on time[13]). This equals the performance of 2018, 2017 and 2016 and confirms a substantial improvement compared to 2015 (10%) and 2014 (5%).

Concerning indirect management the average time to pay the subsidies to ESAs was **15,6 days** which remains below the maximum time limits and confirms the efficient handling of these processes by DG FISMA. It also constitutes an improvement compared to 2018 (19,9 days). Overall, the average time of suspension for payments was **29 days** which allowed DG FISMA to get the necessary clarifications from contractors/beneficiaries.

This positive result also needs to be considered in light of (1) the high number of small transactions under administrative expenditure, (2) the complicated process for organising calls for tenders in a very specialised and evolving domain, and (3)

[11] See also Table 6 of Annex 3.

[12] Below the target of 22 days established in 2019 Management Plan.

[13] Below the target of 90% established in 2019 Management Plan.

the centralised financial circuits used in DG FISMA that concentrate the management of all operations on a small number of staff.

Budget execution

DG FISMA implemented **75,6 %** of its budget in terms of commitments and **74,7%** in terms of payments made. The lower implementation compared to the targets established in the 2019 Management Plan (respectively 95% and 95%) is due to the unused commitment and payment credits related to the contributions from the EU budget to the three ESAs. Indeed the co-legislators adopted the ESAs' review in 2019 without adopting the new funding model as foreseen in the initial Commission proposal so that a total amount of 18.5 million EUR budgeted in 2019 to ensure a smooth transition to the new financial model could not be used for the purpose[14]. Without this decision by the co-legislators DG FISMA's commitment and payment appropriations would have been fully executed. See table 1 and 2 of the Annex 3 for more details on budgetary execution.

2.1.1.5 Economy = the cost of controls

DG FISMA calculated the costs of all staff members involved in functions/activities related to financial and programme management. This broadly included, budget and accounting as well as other horizontal tasks[15].

The overall costs of controls related to all DG FISMA expenditure correspond to **2,9% of the payments made**[16] (both administrative and operational expenditure). The overall costs of controls therefore remain roughly stable compared to the trend in previous years.

Total ratio						
Description	**Year 2015**	**Year 2016**	**Year 2017**	**Type of expenditure**	**Year 2018**	**Year 2019**
Total costs of controls / value of payments made	4%	3%	2%	Operational and administrative expenditure	2,5%	**2,9%**
				Only operational expenditure	1,7%	**2,2%**

[14] See Annex 8 for more details. The Commission proposed an amending budget to the budgetary authority to reallocate these funds to other important policy priorities. Since the budgetary authority could not agree on the amended budget, the amounts remained unused.

[15] Such as internal control, anti-fraud, negotiation of the new funding programmes in the context of the Multi-Annual Financial Framework 2021-2027 as well as the supervision of entrusted entities, assurance and quality management whenever linked to the implementation of the budget.

[16] For the cost calculation of its overall indicator DG FISMA used as denominator the amount of total payments mentioned in table 2 of Annex 3 plus the amount of administrative expenditure paid by PMO and DG HR but for which controls are also taking place in DG FISMA (i.e. missions, external and expert group meetings, committee meetings, trainings). For more detailed information on the calculation method used refer to Annex 10.

The costs of control related to direct management represent **6,4%** of the total expenditure made. This indicator decreases significantly if only operational expenditure is considered for the calculation (4,6%).

Direct management - Operational and administrative expenditure	
Year 2018	**Year 2019**
4,3%	**6,4%**
Direct management - Operational expenditure only	
1,9%	**4,6%**

This increase compared to 2018 is due to the annual increase of the average salary costs for staff and:

- The decision to **redirect ex-ante controls** on (a) the preparation of good tender specifications in collaboration with operational units, (b) the acceptability and budgetary soundness of expenditure linked to DG FISMA events and (c) the eligibility of costs in grants.
- The inclusion of the **costs of controls linked to missions** in the assessment that were not included in last year's calculations.

The increase is however relative in absolute terms since a small increase of controls (nominator) has a big impact on indicators based on a very low volume of payments (denominator)[17]. At the same time, this increase of controls in targeted areas led to **quantitative and qualitative benefits** for example linked to the rejection of substantial amounts of ineligible costs, the application of liquidated damages and reduction in price, the preparation of good tender specifications resulting in no tenders not being awarded and the quick and transparent processing of procurement procedures.

At Commission level the overall costs of control for indirect management represented **1,4%** of the contributions paid to the agencies in 2019 in line with the figure in previous year (1,4%).

See Annex 10 for more details on the costs of controls per control stage and the methodology used for their calculation.

2.1.1.6 Conclusion on the cost-effectiveness of controls

Based on the most relevant key indicators and control results described in Annex 5 and Annex 10, DG FISMA has assessed the effectiveness, efficiency and economy of its control system and reached a positive conclusion on the cost-effectiveness of the controls for which it is responsible.

The relative increase in the costs of controls in direct management is fully justified in light of the factors described in previous paragraphs and the quantitative and qualitative benefits obtained.

[17] For example, the overall costs of control in procurement (including administrative operations) are estimated to be 7,9% of the payments made (see Annex 10 for more details) because of the low value of payments made in that area and high number of transactions on which basic checks are still required.

2.1.2 Audit observations and recommendations

This section sets out the observations, opinions and conclusions reported by auditors – including the limited conclusion of the Internal Auditor on the state of internal control. Summaries of the management measures taken in response to the audit recommendations are also included, together with an assessment of the likely material impact of the findings on the achievement of the internal control objectives, and therefore on management's assurance. DG FISMA's audit and internal control record is broadly positive. In the last five years no critical observations have been made by the European Court of Auditors (ECA) and the Internal Audit Service (IAS).

Internal Audit Service (IAS)

In 2019, the IAS did not carry out any audit on DG FISMA's operations. DG FISMA continued its work to implement the recommendations linked to the previous IAS audit on the effectiveness of DG FISMA performance management system carried out in 2018. DG FISMA also fully addressed in 2019 the recommendations of the IAS audit on the production process and quality of statistics not produced by Eurostat. However, some the recommendations of the IAS remain open awaiting the finalisation of corporate rules.

Based on all work undertaken by the Internal Audit Service in the period 2017-2019[18] and taking into account that DG FISMA's management has accepted all the recommendations issued in 2017-2019 and that DG FISMA's management has adopted action plans to implement all the accepted recommendations[19], the IAS concluded that the **internal control systems in place for the audited processes are effective**.

European Court of Auditors (ECA)

The European Court of Auditors finalised two audits which involved DG FISMA.

- Annual audit on **contingent liabilities** arising as a result of the implementation of the Single Resolution Mechanism (SRM) Regulation. The auditors reported that for financial year 2018 the European Commission complied with its accounting rules and in line with the outcome of its risk assessment was right in not disclosing any contingent liabilities potentially arising from ongoing judicial proceedings. As a result, ECA did not address any observations or recommendations to DG FISMA.
- Audit on how the Commission has been implementing the centrally managed **venture capital interventions**. No recommendations were adressed to DG FISMA.

More audits involving DG FISMA were on-going in 2019. See a detailed list of these on-going audits in Annex 10.

[18] Audit on financial management of procurement and grants in DG FISMA (2017); audit on the production process and the quality of statistics 'not produced by DG ESTAT' (2017) and audit on effectiveness and efficiency of DG FISMA's performance management system (2018).

[19] The IAS considers that these action plans are adequate to address the residual risks identified by the auditors and that the implementation of these action plans is monitored through reports by management and follow-up audits by the IAS.

2.1.3 Assessment of the effectiveness of internal control systems

The Commission has adopted an Internal Control Framework based on international good practice, to ensure the achievement of its policy and management objectives. Compliance with the internal control framework is a compulsory requirement.

DG FISMA uses the organisational structure and the internal control systems suited to achieving its policy and internal control objectives in accordance with the internal control principles and has due regard to the risks associated with the environment in which it operates. DG FISMA has assessed its internal control system during the reporting year and has concluded that it is **effective and the components and principles are present and functioning well overall,** but that some improvements could be made in a few areas.

Internal control principles concerned	Improvements
Principle 1 - The Commission demonstrates a commitment to integrity and ethical value	Continue to raise awareness on riskiest areas related to professional ethics in the DG
Principle 4 - The Commission demonstrates a commitment to attract, develop, and retain competent individuals in alignment with objectives	Improve collection of data on HR related to DG FISMA
Principle 5 - The Commission holds individuals accountable for their internal control responsibilities in the pursuit of objectives	Update the objectives of staff within the DG
Principle 6 - The Commission specifies objectives with sufficient clarity to enable the identification and assessment of risks relating to objectives.	Further reinforce the performance management tool of the DG
Principle 8 - The Commission considers the potential for fraud in assessing risks to the achievement of objectives.	Adopt a new antifraud strategy
Principle 10 - The Commission selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels.	Update guidance on certain financial controls and update business continuity plans following reorganisation
Principle 11 - The Commission selects and develops general control activities over technology to support the achievement of objectives.	Update security plans for IT systems
Principle 12 - The Commission deploys control activities through corporate policies that establish what is expected and in procedures that put policies into action.	Update some internal intranet pages on financial procedures
Principle 13 - The Commission obtains or generates and uses relevant quality information to support the functioning of internal control	Continue work to establish RACER[20] indicators for the next Strategic Planning and Programming cycle

The above areas of improvement are not linked to critical or major deficiencies and **do not entail risks for the functioning of the internal control principles** and components to which they are linked. They are balanced by many strengths and their overall impact on the DG FISMA control framework is minor. More details on the process related to the annual internal control assessment and overall functioning of DG FISMA internal control system are available in Annex 11.

[20] Relevant, Accepted, Credible, Easy to monitor, Robust.

2.1.4 Conclusions on the assurance

This section reviews the assessment of the elements already reported above (in Sections 2.1.1, 2.1.2 and 2.1.3), and the sub-conclusions already reached. It draws an overall conclusion to support the declaration of assurance and whether it should be qualified with reservations.

The assessment of the elements above is corroborated when needed by adequate evidence (such as reports to managers and senior managers or data extracted from corporate IT tools) and provides sufficient guarantees as to the completeness and reliability of the information reported.

- DG FISMA controls on financial operations provide sufficient assurance that risks related to the **legality and regularity** of the operations are properly managed. Controls are sufficient and proportionate to the risks.
- DG FISMA has applied appropriate ex-ante controls on procurement, grants and contributions to the ESAs, to the extent that they remain **cost-effective**.
- No substantial error has emerged from the results of the **ex-post verification** of a sample of transactions.
- The **exceptions** and **non-compliance events** recorded in 2019 did not raise any structural issues having an impact on the legality or regularity of DG FISMA's operations.
- No cases were received by the Ombudsman and no legal proceedings were initiated by tenderers/contractors/beneficiaries.
- The **IAS's conclusion** on the state of control for 2019 is positive.
- The **audits of the ECA** did not raise any observations.
- DG FISMA assessment of the **presence and functioning of its internal control framework** was comprehensive and did not detect deficiencies having an impact on assurance.
- DG FISMA used its resources for their intended purpose and the principle of **sound financial management** was applied in the implementation of its budget.
- DG FISMA has taken all measures to ensure that no **significant information** is omitted from this report, which has been prepared with the support and direct involvement of the management and all services. Deficiencies and deviations from targets are transparently reported and explained.
- DG FISMA has put in place suitable control measures to limit risks of error and prevent, detect and correct **fraud** and irregularities and substantially reinforce the protection of sensitive information.
- The **controls on the ESAs** are proportionate and limited to DG FISMA's governance remit. They are sufficient and appropriate to ensure the legality and regularity of the payment of the annual contribution to them and the efficiency of the annual budget programming.

The approach taken when preparing this report provides sufficient guarantees as to the completeness and reliability of the information reported, resulting in a comprehensive coverage of the budget delegated to the Director-General of DG FISMA.

Overall Conclusion

In conclusion, management has reasonable assurance that, overall, suitable controls are in place and working as intended; risks are being appropriately monitored and mitigated; and necessary improvements and reinforcements are being implemented. The Director General, in his capacity as Authorising Officer by Delegation has signed the Declaration of Assurance.

2.1.5 Declaration of Assurance

I, the undersigned,

Director-General of DG FISMA

In my capacity as authorising officer by delegation

Declare that the information contained in this report gives a true and fair view.

State that I have reasonable assurance that the resources assigned to the activities described in this report have been used for their intended purpose and in accordance with the principles of sound financial management, and that the control procedures put in place give the necessary guarantees concerning the legality and regularity of the underlying transactions.

This reasonable assurance is based on my own judgement and on the information at my disposal, such as the results of the self-assessment, ex-post controls, the work of the Internal Audit Service and the lessons learnt from the reports of the Court of Auditors for years prior to the year of this declaration.

Confirm that I am not aware of anything not reported here which could harm the interests of the institution.

Brussels, 30/03/2020

[Signed]

John BERRIGAN

2.2 Other organisational management dimensions

For an extensive reporting on all the components below, please refer to Annex 2.

2.2.1 Human resource management

2.2.2 Better regulation

2.2.3 Information management aspects

2.2.4 External communication activities