



European  
Commission

# Annual Activity Report 2021

DG FISMA

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## THE DG IN BRIEF

The mission of the European Commission's Directorate-General for Financial Stability, Financial Services and Capital Markets Union (DG FISMA) is *"to preserve financial stability, protect savers and investors, fight financial crime, as well as to ensure the flow and access to capital for businesses and consumers in the European Union"*.

DG FISMA is based in Brussels and is composed of 5 directorates with 22 units and one task force. The Resolution Task Force is the lead service for the resolution function of the Commission in the context of the Banking Union.

The DG is managed by the Director-General John Berrigan under the political authority of Commissioner McGuinness.

The DG supports the Commissioner to carry out the mission entrusted to her by the President of the European Commission.

DG FISMA's work for a stable and competitive EU financial system is crucial to support our economy and to contribute to sustainable growth for the benefit of EU citizens. Due to the COVID-19 pandemic our ongoing work on market functioning and regulatory frameworks have been complemented by significant actions to reinforce the recovery.

DG FISMA uses a broad range of legislative and non-legislative tools. In addition to "level 1" legislation, DG FISMA is actively involved in the development of delegated and implementing acts ("level 2"), often in close cooperation with the European Supervisory Authorities (ESAs). DG FISMA together with the ESAs work to facilitate convergence of supervisory practices in Member States. Reaching of all DG FISMA's objectives depends on timely and correct transposition of EU Directives, and we therefore attach significant resources to enforcement and support structures and procedures.

The work of DG FISMA is dependent on close coordination and cooperation with Member States, organisations and stakeholders, both within the EU and internationally.

## **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 <sup>(1)</sup>.

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<sup>(1)</sup> Article 17(1) of the Treaty on European Union.

## A. Key results and progress towards achieving the Commission's general objectives and DG's specific objectives (executive summary of section 1)

The **COVID-19 pandemic** has presented the European economy and financial system with significant challenges. DG FISMA is at the centre of the Commission's work to ensure a smooth recovery and achieving sustained growth following the pandemic. The actions of DG FISMA in 2021 were designed to tackle its social, economic and financial consequences. This has gone alongside measures implemented by DG FISMA to improve the functioning of the financial markets and efforts to address longer-term structural challenges such as climate change, an aging population and digital transformation.

DG FISMA contributes to several of the Commission's general objectives, notably '*An Economy that works for people*', but also other political priorities, such as '*A European Green Deal*', '*A Europe fit for the digital age*' and '*A stronger Europe in the world*'. When preparing initiatives to achieve these objectives, we always work according to **Better Regulation** principles and look for **burden reduction** possibilities. **External communication** as well as **enforcement** play important roles in our work.

### **FINANCIAL MARKETS**

Work on completing the **Capital Markets Union** continued during 2021. The Commission has proposed to set up a **European Single Access Point** for financial and sustainability-related data, to review MiFIR (**Markets in Financial Instruments Regulation**) including putting in place a Consolidated Tape for post-trade data across all the EU, and presented proposals to enable increased uptake of **European Long Term Investment Funds** (ELTIFs), and to clarify the rules for **Alternative Investment Fund Managers**.

We continued our preparatory work on **investment protection and facilitation** in the EU, in order to enable further deliverables in 2022.

We presented a **report** on improving securities settlement in the European Union and on **central securities depositories** (CSDR). The **legislative review of CSDR** was presented in the first quarter of 2022. A number of delegated as well as implementing acts relating to **European Market Infrastructure Regulation** (EMIR) were presented and the Commission adopted an **implementing equivalence decision** of the regulatory framework of the United States Securities and Exchange Commission concerning central counterparties.

### **FINANCIAL STABILITY**

In June the Commission presented an ambitious **legislative package to strengthen the EU's anti-money laundering and countering the financing of terrorism (AML/CFT) rules which provides for a single rule book and a new EU AML/CFT Authority**. The **Solvency II proposal** creates targeted macro-prudential rules for the insurance and

reinsurance sectors, and is coupled to a proposed **framework for Insurance Recovery and Resolution**. The legislative proposal containing amendments to the **Capital Requirements Regulation and the Capital Requirements Directive** finalises the implementation of international standards for banks - the Basel III agreement - in the EU.

Completing the Banking Union remains an important objective for the Commission. During 2021, the **preparation of the Crisis Management and Deposit Insurance review** together with EDIS (European Deposit Insurance Scheme) progressed within the Commission in parallel with the debates in inter-governmental format (Eurogroup).

DG FISMA intensified its financial market monitoring and financial sector surveillance of Member States following the COVID crisis, including in the context of the **Post-Programme Surveillance framework** and the **enlarged EU Semester** which frames the Recovery and Resilience Facility. The **European financial stability and integration review (EFSIR)** was published mid-2021.

### **CONSUMERS AND INVESTORS**

Intense preparatory work continued on a **retail investment legislative package** to be adopted in 2022 involving several financial services' legislative frameworks. The Commission continued work on supporting Member States' efforts in raising **financial literacy** of EU citizens, including by implementing the targeted CMU actions. DG FISMA stresses the need of **safeguarding the interests of consumers** in financial services, in particular through its financial services user expert group, and through support of consumer groups.

In September 2021, the Commission adopted a package of proposals to improve the rules for the content and presentation of the **PRIIPs Key Information Document (PRIIPs KID)**. These were adopted by co-legislators in December 2021 and should enter into application on 1 January 2023.

In 2021, DG FISMA presented an **'Audit market monitoring report'** and a report on the review clauses in several Directives accompanied by a **Fitness Check** on the EU framework for public reporting by companies.

### **SUSTAINABLE FINANCE**

As a part of the European Green Deal, in July the Commission adopted the **"Strategy for Financing the Transition to a Sustainable Economy"** setting out the Commission's agenda for sustainable finance in the coming years, identifying several policy areas to address. Furthermore, DG FISMA has continued to work with third-country jurisdictions in the **International Platform on Sustainable Finance**.

Mid-2021 the Commission adopted the **Climate Delegated Act under the Taxonomy Regulation**, defining technical screening criteria for those economic activities substantially contributing to the objectives of climate change mitigation and adaptation. It applies from

1 January 2022. In July 2021, the Commission adopted another **Delegated Act supplementing Article 8 of the Taxonomy Regulation** specifying the information to disclose as regards the extent to which their activities are taxonomy-aligned.

Finally, in the last months of 2021, the Commission worked on a **Complementary Climate Delegated Act** that would include, under strict conditions, specific **nuclear and gas energy activities** in the list of economic activities covered by the EU Taxonomy. This act was adopted on 9 March 2022.

In July, the Commission proposed a Regulation to create a **European Green Bond Standard**, usable by all types of bond issuers on a voluntary basis.

Work on Regulatory Technical Standards related to the Regulation on **sustainability related disclosures in the financial services sector** (SFDR) continued. The Commission will bundle the 13 regulatory technical standards of the SFDR in a single delegated act and defer the dates of application to January 2023.

The proposed **Corporate Sustainability Reporting Directive** will enable a seamless flow of sustainability information through the financial value chain and for other stakeholders. The proposed Directive would ensure that company sustainability reporting corresponds to the needs of financial market participants subject to the disclosure requirements of the SFDR.

## ***DIGITAL FINANCE***

On 25 November 2021, the Commission presented – as part of the CMU package – a proposal to set up a **European Single Access Point (ESAP)**. The ESAP will provide a unique digital access to companies' financial and sustainability-related information and product data, and will enable better digital use and re-use of this information.

DG FISMA continued its work on **facilitating digital payments** outlined in the Commission Retail Payments Strategy. We carried out preparatory work in view of the initiative to foster the full take up of **instant payments** in the EU (included in the Commission Work Programme for second quarter 2022). In addition, DG FISMA continued preparations for a forthcoming review of the **Payment Services Directive**, and we pursued our efforts to remove remaining situations of **IBAN (international bank account number) discrimination**.

Negotiations on the **Digital Finance legislative proposals** advanced in 2021. During 2021, DG FISMA, together with DG ECFIN and DG CNECT, also pursued important preparatory technical work with the European Central Bank on the potential design of a **digital euro**.

Finally, DG FISMA prepared a **strategy on supervisory data** in EU financial services that was adopted as a Commission communication in December 2021.

## ***INTERNATIONAL ASPECTS***

Early 2021, DG FISMA presented a **Communication on Open Strategic Autonomy in Economy and Finance**. In the area of **sanctions**, the geopolitical situation required major overhauls of several sanctions regimes, most notably concerning Belarus.

DG FISMA did important preparatory work during the year for the forthcoming amendments to the **Blocking Statute Regulation**, included in the Commission Work Programme for the second quarter of 2022.



## B. Key Performance Indicators (KPIs)

### B.1 Key performance indicators for general and specific objectives

The two Key Performance Indicators (KPIs) of DG FISMA related to economic developments were showing marked improvements before the outburst of the COVID-19 pandemic.

#### KPI 1 - Share of market funding in non-financial corporations' (NFCs) outstanding debt

##### Result indicator: Share of market funding in non-financial corporations' (NFCs) outstanding debt

**Explanation:** It is an access to finance indicator showing to what extent non-financial companies (NFCs) finance their debt with a market instrument compared to bank loans. It is calculated as the outstanding amount of debt securities issued by NFCs divided by the sum of outstanding amount of debt securities issued by NFCs and loans vis-a-vis euro area NFCs reported by monetary financial institutions (MFIs) (excluding ESCB).

**Source of Data :** ECB and DG FISMA calculations

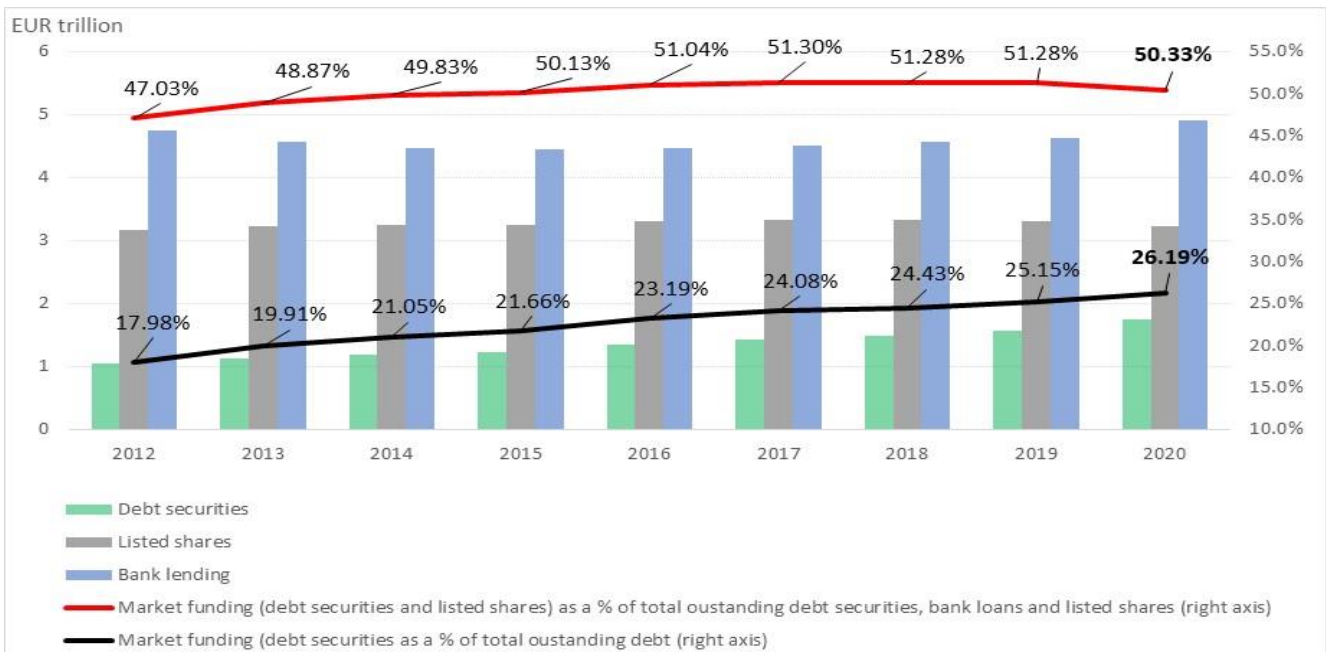
Baseline (2019)	Interim milestone (2022)	Latest known results (2020)
21%	Increase	26.19%

The first key performance indicator aims to track the importance of market-based debt instruments in the total outstanding debt funding of non-financial corporations. More specifically, it aims to track the increase in the importance of debt securities compared to bank loans that are traditionally more widely used by European corporations. The share of market-based financing in the total outstanding debt of non-financial corporations increased by 1 percentage point from 25.2% to 26.2% on an annual basis in 2020 compared to the end of 2019 as companies issued more market-based debt instruments to finance COVID-19 related expenditures and the recovery in activity after the outburst of the crisis (see Figure 1). In contrast, the share of total market-based funding (including listed shares) recorded a decline of almost 1 percentage point from 51.28% in 2019 to 50.33% in 2020 as the share listed equities in the total funding of EU27 non-financial corporations declined <sup>(2)</sup>.

**Figure 1. Share of market funding in the total outstanding debt of EU-27 non-financial corporations <sup>(3)</sup>**

<sup>(2)</sup> This indicator is included as well in the Capital Markets Union scoreboard and the figures for the stocks of listed equities are re-calculated in order to take out valuation effects. For more information see: [https://ec.europa.eu/commission/presscorner/detail/en/ip\\_21\\_6251](https://ec.europa.eu/commission/presscorner/detail/en/ip_21_6251)

<sup>(3)</sup> Following a data revision occurred after that the baseline was set in the Strategic Plan 2020-2024 the historical series of this indicator have changed as well.



Source: DG FISMA calculations based on ESTAT Financial Accounts

## KPI 2 - Share of household assets invested in financial instruments

### Result indicator: Share of household assets invested in financial instruments

**Explanation:** It is an indicator of retail investors' participation in financial markets. It measures the sum of households' investment in debt securities, listed shares, investment fund shares/units, life insurance and annuity entitlements, pension entitlements), as a percentage of total financial assets held by households in the EU-27.

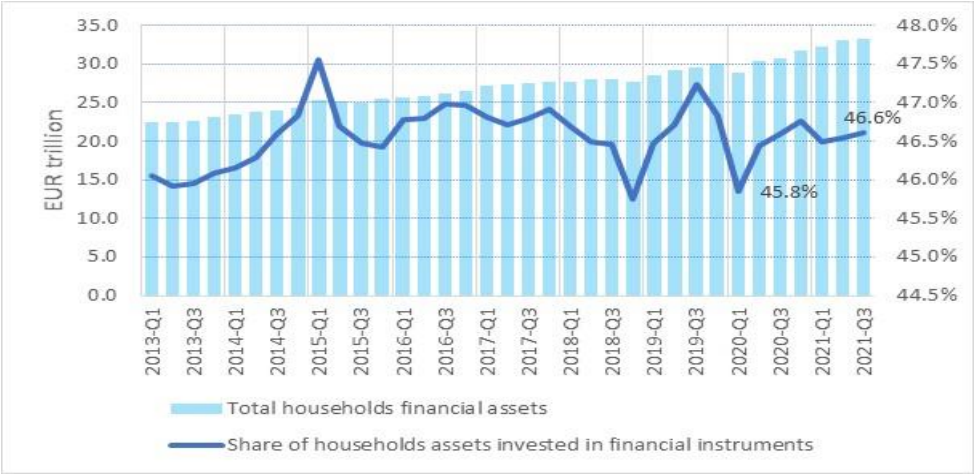
**Source of Data :** Eurostat (Financial balance sheets nasa\_10\_f\_bs)

Baseline (2018)	Interim milestone (2022)	Latest known results (2021)
46.07%	Increase	46,6%

The second key performance indicator is the share of household financial assets invested in market-based financial instruments, which reflects the level of retail participation in financial markets (including direct investments or indirect participation via investment funds, insurance or pension products). This indicator has been rather stable, ranging between 45% and 47% over the long period shown in Figure 2. The impact of the COVID-19 pandemic was an initial decline in the total amount of household financial assets as well as in the share of household investments in market-based financial instruments in the first quarter of 2020 compared to the last quarter of 2019, coinciding with the sharp downturn in financial markets as well as an increased risk aversion and precautionary savings predominantly in bank deposits. By the fourth quarter of 2020, the indicator recovered almost entirely, owing also to the unprecedented intervention in financial markets. In the beginning of 2021 the share of household financial assets invested in market-based instruments declined again against the backdrop of renewed COVID-19

pandemic waves and increasing total household financial assets as a result of higher precautionary savings predominantly in bank deposits. Later on in the year, household participation in financial markets started to recover, reaching by the third quarter of 2021 its level from the end of 2019 before the start of the health crisis. The overall impact of the pandemic on retail investor participation in financial markets remains to be seen and warrants further policy attention.

**Figure 2. Share of household financial assets invested in market-based financial instruments**



Source: DG FISMA calculations based on ESTAT Quarterly Financial Accounts

Going forward, it remains to be seen how resilient with respect to negative shocks and more specifically to the COVID-19 pandemic crisis will be the performance of the EU financial sector as well as the participation in financial markets of EU households and corporates.

**B.2 Key performance indicator for modern and efficient administration**

**KPI 3 - Degree of implementation of the digital strategy principles by the most important IT solutions Source of data: DG FISMA**

Regarding the fourth key performance indicator on the degree of implementation of the digital strategy principles, DG FISMA continued to progress in implementing the principles of the Commission’s digital strategy in its three main IT solutions.

**Objective:** DG FISMA is using innovative, trusted digital solutions for better policyshaping, information management and administrative processes to forge a truly digitally transformed, user-focused and data-driven Commission

**Indicator:** Degree of implementation of the digital strategy principles by the most important IT solutions Source of data: DG FISMA

IT solution	Baseline (2018)	Interim milestone (2022)	Target (2024)	Latest known results (December 2021)
BASIS	40%	81%	95%	80%

EMT	40%	95%	100%	80%
KOEL	40%	95%	100%	80%

## **C. Key conclusions on Financial management and Internal control (executive summary of section 2.1)**

In line with the Commission's Internal Control Framework DG FISMA has assessed its internal control systems during the reporting year and has concluded that they are effective, the components and principles are present and functioning well overall, but 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, 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. Improvements are necessary concerning the update of the assessment of sensitive functions and the annual review of data processing operations both of which have already started and will be completed in 2022. 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 Commissioner Mairead McGuinness, responsible for Financial Stability, Financial Services and the Capital Markets Union.

## 1. KEY RESULTS and progress towards achieving the Commission's general objectives and DG's specific objectives

In 2021, DG FISMA concentrated its efforts on achieving the Commission's general objective 'An Economy that works for people', but also contributed to other political priorities, such as 'A European Green Deal', 'A Europe fit for the digital age' and 'A stronger Europe in the world'. DG FISMA was also actively involved in the work on the EU recovery plan following the COVID-19 pandemic.

In order to achieve these general objectives, DG FISMA's strategy consists of **six specific objectives**. Below we will give a non-exhaustive summary of some of the outputs achieved during 2021 to meet these specific objectives. Detailed information on all initiatives can be found in the Annex.

To reach these objectives, DG FISMA puts significant emphasis on **external communication** as well as **enforcement actions**. During 2021, DG FISMA produced 7 comprehensive press packages for major outputs - major economic media outlets across the EU used these extensively, as was also manifested by journalists' attendance at the technical briefings. Concerning enforcement, DG FISMA is very engaged with Member States, via transposition workshops, checking of transpositions and, when needed, via infringement procedures. **Better regulation** and **burden reduction** possibilities are considered in all DG FISMA policy making.

### 1. *EU financial markets are more integrated and liquid, opening new opportunities for cross-border investments and funding for citizens and businesses*

The Commission adopted a package of **legislative proposals to advance the Capital Markets Union** in November 2021. The proposals will contribute to more integrated and liquid financial markets. The proposals to set up a **European Single Access Point** (see also objective 4) for financial and sustainability-related data and to put in place a Consolidated Tape for post-trade data across all EU trading venues will ensure that investors have better access to company, product and trading data. Alongside the proposals to support the uptake of **European Long Term Investment Funds** (ELTIFs) and clarify the rules for **Alternative Investment Fund Managers** (AIFs), they will make it easier for companies to raise funding and for investors, including citizens, to invest across borders. The proposal for a consolidated tape is part of the MiFIR (**Markets in Financial Instruments**) review, which will also include other measures to enhance transparency on trading markets. A Communication on CMU monitoring containing a **comprehensive indicator dashboard** was published in June 2021.

In November 2020, the European Court of Auditors presented a **Special Report on Capital Markets Union** – "Slow start towards an ambitious goal". Council Conclusions on this report was approved in March 2021.

Work on **investment protection and facilitation** has been ongoing towards an environment that further supports EU companies of all sizes in their investments throughout the EU. This is a complex area which requires significant work, and comprehensive evidence gathering. Deliverables are planned for 2022.

In July, DG FISMA adopted a **report** on improving securities' settlement in the European Union and on **central securities depositories** (CSDR). Further work relating to the **review of CSDR** was ongoing throughout 2021 and a proposal for a legislative review of CSDR was presented in the first quarter of 2022.

Following the entry into force of the amended **European Market Infrastructure Regulation** (EMIR "2.2") in 2021, the Commission adopted a number of **delegated acts** concerning (i) the annual supervisory fees charged by ESMA to trade repositories for 2021, and i.a. the content of the file to be submitted by the investigation officer to ESMA; (ii) the procedure for penalties imposed on third-country central counterparties or related third parties by ESMA, and by specifying when commercial terms for clearing services for OTC derivatives are to be considered to be fair, reasonable, non-discriminatory and transparent; and (iii) extending the exemption from the clearing obligation for pension scheme arrangements. It also adopted a number of **implementing acts** on the recognition of the legal, supervisory and enforcement arrangements of Australia, Brazil, Canada, Hong Kong, Singapore, United States for derivatives transactions supervised by their supervisors as equivalent to certain requirements of EMIR. In addition, it adopted an **implementing equivalence decision** of the regulatory framework of the United States of America for central counterparties that are authorised and supervised by the U.S. Securities and Exchange Commission. Relating to EMIR, DG FISMA also presented two **reports** during the year.

A number of **Implementing Delegations relating to the Solvency II Directive** were adopted throughout the year. Delegated Regulations on **Pan-European Personal Pensions** (PEPP) (e.g. relating to information documents, cost and risk mitigation techniques as well as convergence of supervisory reporting and cooperation between national competent authorities) were also adopted in 2021.

Work on the mapping of **External Credit Assessment Institutions (ECAI)** continued and resulted in two amending ITS adopted in the autumn of 2021.

**Financial Collateral Directive/Settlements Finality Directive** review reports announced for 2021 are expected to be published in the third quarter of 2022.

The development, **general condition and liquidity of national financial systems** has been monitored on a continuous basis and in particular in the case of specific economic or political developments which might affect financial stability of the respective EU Member States. The **European financial stability and integration review (EFSIR)** annual report was published mid-2021.

2. *Financial stability is preserved and improved by efficient supervision and crisis management mechanisms, by means to absorb shocks and diversify risks, and a*



*comprehensive approach is in place to fight money laundering and the financing of terrorist activities*

On 20 July 2021, the Commission delivered on the commitment taken in the Action Plan of 2020 and adopted an ambitious **legislative package to strengthen the EU's anti-money laundering and countering the financing of terrorism (AML/CFT) rules**. The package provides for a single rule book through a Regulation on AML/CFT providing for more harmonisation through directly-applicable rules and a sixth Directive on AML/CFT ("AMLD6"), replacing the existing Directive 2015/849/EU, as well as for an institutional reform by a Regulation establishing a new EU AML/CFT Authority. It also encompasses a revision of Regulation 2015/847/EU on Transfers of Funds to trace transfers of crypto-assets. Following the selection of several AML-related projects in the framework of the **Technical Support Instrument**, coordinated by DG REFORM, DG FISMA has been following their further development and implementation. Regarding external communications, in addition to its press package, DG FISMA presented the AML package through short videos and an animated card on social media which attracted more than 2,000 views, as well as an op-ed by Commissioner McGuinness in a US publication.

The **Solvency II review proposal** creates targeted macro-prudential rules for the insurance and reinsurance sectors. Public authorities are enabled to address promptly any source of systemic risk that may arise from (re)insurance activities. These new tools also align EU rules with the international standards on systemic risk developed by the International Association of Insurance Supervisors. These targeted improvements to Solvency II will be reinforced by the parallel introduction of improvements aiming to ensure better quality of supervision, group supervision and cross-border supervision, as well as a **framework for Insurance Recovery and Resolution**. In particular, the latter proposal relies on international guidance and extensive EIOPA (European Insurance and Occupational Pensions Authority) advice to set minimum requirements in the EU in terms of crisis management preparedness and availability of resolution tools in case of failure. The purpose is to enhance policyholder protection, to safeguard financial stability and to minimize the use of public funds to absorb possible losses.

Regarding the completion of the Banking Union, the **preparation of the Crisis Management and Deposit Insurance review** together with **EDIS** (European Deposit Insurance Scheme) progressed within the Commission, while following the developments in the Eurogroup discussions.

The legislative proposal containing amendments to the **Capital Requirements Regulation and the Capital Requirements Directive** has implemented the international standards - the Basel III agreement - in the EU with the aim of strengthening the resilience of EU banks to economic shocks. In addition, it provides stronger tools for supervisors of EU banks and EU branches of third-country banks.

Furthermore, several **Commission Implementing and Delegated Regulations relating to credit institutions** were adopted in 2021. A number of **Regulatory Technical**

**Standards** as well as Delegated Regulations have been delayed for technical reasons and will be presented in 2022.

Several Implementing and Regulatory Technical Standards relating to the **Bank Recovery and Resolution Directive (BRRD)** were presented throughout the year.

A Report on whether to introduce a **leverage ratio surcharge for O-SIIs** (other systemically important institutions) was presented in February 2021, and a Regulatory Technical Standards (RTS) specifying the methodology for the **identification of global systemically important institutions** (G-SIIs) was adopted the same month.

Two reports relating to **Articles 459 and 502 of the Capital Requirements Regulation** announced for 2021 will instead be dealt with in the context of the evaluation of the macroprudential framework due in the fourth quarter of 2022.

DG FISMA intensified its financial market monitoring and financial sector surveillance of Member States following the COVID crisis, including in the context of the **Post-Programme Surveillance framework** and the **enlarged EU Semester** which frames the Recovery and Resilience Facility.

*3. The confidence and protection of consumers and investors on European financial markets, as well as market integrity, are enhanced*

DG FISMA carried out preparatory work, including a public consultation and requests for advice from the ESAs, in view of a **retail investment package** to be adopted in 2022. In addition, DG FISMA published a report on the application of the **Mortgage Credit Directive** (MCD) and continued the work on a review of the Directive. In 2021 work was initiated on the review of the **Insurance Distribution Directive (IDD)** in the context of the broader retail investment work.

The Commission also worked on supporting Member States' efforts in raising **financial literacy** of EU citizens. As part of these efforts, also following up on the action announced in the 2020 CMU action plan, the Commission has developed, jointly with the OECD-INFE, a framework for financial competence which also includes relevant digital and sustainable finance competences. To support external outreach on financial literacy, DG FISMA has launched a dedicated website and disseminated videos on social media. DG FISMA also continued its work on **safeguarding the interests of consumers** in financial services in particular through its financial services user expert group, the support of Finance Watch and Better Finance and managing the network of alternative dispute resolution bodies in the area of financial services, FIN-NET.

The **Solvency II review proposal** pursues the overall objective of policyholder protection by making the rules for EU (re)insurers more risk-sensitive and improving the resilience of the sector in crises; reinforced by the proposal for an **insurance resolution framework**.

The Commission also assessed the potential alignment of rules for **insurance guarantee schemes** and decided that, faced with the need to focus on economic recovery, a proposal was not appropriate at this juncture, but that it would reassess the issue in the future.

In September 2021, the Commission adopted a package of proposals to improve the rules for the content and presentation of the **PRIIPs Key Information Document (PRIIPs KID)**, which retail investors receive when they purchase certain investment products. The new rules are based on draft Regulatory Technical Standards developed by the European Supervisory Authorities. The proposals will also allow the phasing out of today's UCITS Key Investor Information Document (UCITS KIID). They were adopted by co-legislators in December 2021 and should enter into application on 1 January 2023.

A number of important amendments to **International Financial Reporting Standards (IFRSs)** and the new standard IFRS 17 on insurance contracts were endorsed throughout the year. In addition to the ones mentioned in the annex, two further endorsements of IFRS/IAS were made in 2021, namely in relation to phase 2 of the Interest Rate Benchmark Reform and on certain amendments to IAS 16-37- IFRS 3 and Annual Improvements 2018 – 2020 Cycle. The **repeal and replacement of the IFRS Regulation** planned for the last quarter of 2021, will instead take place in the end of 2022.

In 2021, DG FISMA presented a **report on developments in the EU market for statutory audit services to public-interest entities** (*'Audit market monitoring report'*) and a report on the review clauses in Directives 2013/34/EU, 2014/95/EU, and 2013/50/EU. The latter report was accompanied with a **Fitness Check** on the EU framework for public reporting by companies. Following these documents in November a public consultation was launched on improving the quality and enforcement of corporate reporting.

#### 4. *More private capital is made available for sustainable investments*

In July 2021, the Commission adopted the **"Strategy for Financing the Transition to a Sustainable Economy"**, which was part of the European Green Deal. The Strategy sets out the Commission's agenda for sustainable finance in the coming years and identifies four policy areas to address: facilitating transition finance, supporting a more inclusive sustainable finance, strengthening work on resilience and impact of the financial sector, and adapting to a renewed global ambition. On the latter, the Commission has continued to work with third-country jurisdictions in the **International Platform on Sustainable Finance (IPSF)** to scale up sustainable finance globally. In 2021, the IPSF, chaired by the Commission, published four reports: (i) a IPSF-UNDESA Report on compatibility of approaches to align investments to sustainability goals, (ii) its annual report for 2021, (iii) a report on 'Common Ground Taxonomy', and (iv) a report on sustainability-related disclosures.

In mid-2021, the Commission adopted the **Climate Delegated Act under the Taxonomy Regulation**, defining technical screening criteria for those economic activities substantially contributing to the objectives of climate change mitigation and adaptation. It applies from

1 January 2022. In April 2021, accompanying the publication of the Climate Delegated Act, the Commission adopted a **Communication** on “EU Taxonomy, Corporate Sustainability Reporting, Sustainability Preferences and Fiduciary Duties: Directing finance towards the European Green Deal” that aimed at delivering key messages on how the sustainable finance toolbox facilitates access to finance for the transition. This Communication was informed by the “Report on Transition Finance” published by the **Platform on Sustainable Finance**, the advisory body of the Commission working on the implementation of the Taxonomy framework. In the course of 2022, the Platform on Sustainable Finance will also advise the Commission on the Delegated Act covering the four broader environmental objectives set out in the Taxonomy Regulation and on future taxonomy developments.

Furthermore, in July 2021, the Commission adopted another **Delegated Act supplementing Article 8 of the Taxonomy Regulation** specifying the information to disclose as regards the extent to which their activities are taxonomy-aligned. This Delegated Act specifies the content, methodology and presentation of information to be disclosed by financial institutions and non-financial undertakings concerning the proportion of environmentally sustainable economic activities in their business, investments or lending activities.

Finally, in the last months of 2021, the Commission worked on a **Complementary Climate Delegated Act**, which recognises the specific role, subject to strict conditions, that certain nuclear and gas related activities can play in the transition. The Platform on Sustainable Finance and the Member States Expert Group on Sustainable Finance were consulted in the process. The Complementary Climate Delegated Act was formally adopted by the Commission on 9 March 2022 and is now under scrutiny by the co-legislators.

On 20 September 2021, the **European Court of Auditors (ECA) published its report on sustainable finance** (*Special Report 22/2021: ‘Sustainable finance: More consistent EU action needed to redirect finance towards sustainable investment’*). The Commission welcomed the Report conclusion that the measures from the Sustainable Finance Action Plan rightly focused on how to improve transparency. The Commission stressed that despite the COVID-19 pandemic, it had been able to deliver on a significant number of actions and many are still being developed.

In July, the Commission proposed a Regulation to create a **European Green Bond Standard**, usable by all types of bond issuers on a voluntary basis. According to the Commission proposal, bond issuers that wish to make use of the standard would need to allocate 100% of the bond proceeds to finance taxonomy-aligned economic activities. The proposal also included a dedicated regime for ESMA to register and supervise external reviewers of bonds utilising the standard.

Regulation 2019/2088 on **sustainability related disclosures in the financial services sector** (SFDR) applies from 10 March 2021. The SFDR includes six Regulatory Technical Standards (RTS) mandates. The RTS were jointly submitted by the three ESAs to the Commission on February 2021, instead of December 2020, the original deadline. The Taxonomy Regulation 2020/852 (Taxonomy Regulation) amended the SFDR and inserted

seven additional SFDR RTS mandates on pre-contractual and periodic financial product-related disclosures, and no significant harm. Owing to the length and technical detail of the RTS – including the late submissions to the Commission – the Commission has officially announced it would have bundled all the 13 regulatory technical standards of the SFDR in a single delegated act and defer the dates of application. The ESAs approved the second batch of the RTSs in October and submitted them to the Commission. The Commission is now bundling them together to launch the adoption process. The RTSs will apply from January 2023.

The proposed **Corporate Sustainability Reporting Directive** will be the foundation of a consistent flow of sustainability information through the financial value chain and for other stakeholders. Information disclosed by companies would therefore be available for analysts in banks, insurance companies, asset management, companies or credit rating agencies, for end investors and for non-governmental organisations and other stakeholders that wish to better hold companies to account for their social and environmental impacts. With a view to the objectives of the European Green Deal, companies included under the scope would have to report on the impact of their business model and strategy towards the transition to a sustainable and climate neutral economy. The proposed Directive would ensure that company sustainability reporting corresponds to the needs of financial market participants subject to the disclosure requirements of the SFDR.

The **Solvency II review proposal** strengthens (re)insurers' management of climate risks by introducing a requirement for a long-term climate change scenario analysis. Furthermore, the proposed legislative **amendments to the Capital Requirements Regulation and the Capital Requirements Directive** introduce an explicit environmental, social and governance (ESG) dimension into the EU prudential framework for banks, in line with the Commission's Sustainable Finance Strategy.

Opportunities as well as risks for the financial sector related to sustainable finance are regularly being discussed with national authorities in the context of **post-programme surveillance and European Semester**. Sustainable finance related are being followed as regards the implementation of **Recovery and Resilience Plans**. Preparatory work ahead of the first meeting of Climate Working Group in the framework of the Vienna Initiative is progressing.

5. *Opportunities from digital technology are widely employed to implement a safe, competitive and inclusive digitalisation of financial services*

On 25 November 2021, the European Commission presented - as part of the CMU package – a proposal to set up a **European Single Access Point (ESAP)**. The ESAP will provide a unique digital access to companies' financial and sustainability-related information and product data, and will enable better digital use and re-use of this information. The ESAP will offer a single access point for public financial and sustainability-related information about EU companies and EU investment products. This will give companies – also small and medium sized ones - more visibility towards investors, opening up more

sources of financing. The ESAP will also contain sustainability-related information published by companies, which will support the objectives of the European Green Deal. As a common data space, the ESAP is a cornerstone of the EU's Digital Strategy and the **Digital Finance Strategy**.

Negotiations on the **Digital Finance legislative proposals** advanced in 2021. In November, the co-legislators reached a political agreement on the pilot regime for **DLT** (Distributed Ledger Techniques) market infrastructures. In December, the European Parliament and Council adopted their respective negotiation mandates on the proposal for a regulation on digital operational resilience ("**DORA**"), paving the way for trilogue negotiations. The Council in December also reached a general approach on the proposal for a regulation on markets in crypto-assets ("**MiCA**"). Furthermore, as set out in the Commission's digital finance strategy, the Commission issued a call for advice to the ESAs on digital finance in February 2021. DG FISMA has also during the course of 2021 continued to contribute actively to the Commission's broader digital agenda, liaising closely with DG CNECT and providing input into horizontal legislative proposals with a link to financial services, such as the proposals for regulation on **artificial intelligence, digital identity framework and those implementing the European data strategy**.

DG FISMA continued its work on **facilitating digital payments** by implementing the policy actions announced in the Commission Retail Payments Strategy for the EU adopted in 2020. In particular, the Commission assessed the main issues conditioning the full success of instant payments' take up and carried out preparatory work in view of a possible legislative initiative to foster the full take up of **instant payments** in the EU. In addition, DG FISMA pursued work preparing for a forthcoming review of the **Payment Services Directive**. DG FISMA continued its combat to remove the remaining situations of **IBAN discrimination**, which are in clear breach of the SEPA rules. This included a communication campaign to raise awareness and facilitate enforcement against this discrimination.

During 2021, DG FISMA in cooperation with DG ECFIN and DG CNECT also pursued important preparatory technical work with the European Central Bank on the potential design of a **digital euro**.

In December 2021, the Commission adopted a **strategy on supervisory data** in EU financial services. The objective of the strategy is to modernise EU supervisory reporting and put in place a system that delivers accurate, consistent, and timely data to supervisory authorities at EU and national level, while minimising the aggregate reporting burden for all relevant parties. The strategy will facilitate more data-driven supervision based on modern technologies and also enable the optimal use of RegTech and SupTech tool.

6. *The EU financial system's sovereignty and competitiveness in a challenging international environment are strengthened*

Early 2021, DG FISMA presented a **Communication on Open Strategic Autonomy in Economy and Finance**. In order to strengthen the role of the EU as a credible actor on the

international stage, DG FISMA initiated follow-up work to the communication in order to (1) promote a stronger role for the euro; (2) increase the resilience of EU infrastructures; and (3) ensure that Europe is more resilient to extraterritorial sanctions by third countries and that EU sanctions are properly enforced.

In the area of **sanctions**, the geopolitical situation required major overhauls of several sanctions regimes, most notably concerning Belarus. The establishment of an expert group of Member States' representatives has been supporting DG FISMA's implementation of uniform implementation and enforcement of EU sanctions, An EU-level contact point for queries on humanitarian aid was launched in March 2021.

Regarding the **fight against the extraterritorial application of sanctions**, DG FISMA has launched the review of the Blocking Statute Regulation <sup>(4)</sup> completing an initial impact assessment and a public consultation in late 2021. The proposal for amendments to the Blocking Statute Regulation is included in the Commission Work Programme for the second quarter of 2022.

During 2021, 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. To promote international coherence with the EU approach on sustainable finance, DG FISMA has represented the EU in the **G20 Sustainable Finance Working Group** and engaged with partner jurisdictions in the **International Platform on Sustainable Finance** (IPSF). DG FISMA coordinated the IPSF work and organised the IPSF IPSF Annual Event at COP26.

DG FISMA pursued its relations with key jurisdictions through **bilateral dialogues** and 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 also continued 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 addition, DG FISMA, in cooperation with the European Supervisory Authorities, monitored existing equivalences in a number of jurisdictions to verify whether the conditions under which equivalence was granted are still fulfilled.

DG FISMA has been closely monitoring financial market developments related to **Brexit**, in view of identifying and addressing potential risks to financial stability, notably those related to the reliance on UK financial market infrastructures.

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<sup>(4)</sup>Regulation (EC) No. 2271/96.

## 2. MODERN AND EFFICIENT ADMINISTRATION AND INTERNAL CONTROL

### 2.1 Financial management and internal control

Assurance is provided on the basis of an objective examination of evidence of the effectiveness of risk management, control and governance processes.

This examination is carried out by management, who monitor 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. The following **reports** have been considered: (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 (4) the annual assessment of DG FISMA's costs of controls; (5) the reports on the ex-post checks performed on a sample of transactions; (6) the register on exceptions and non-compliance events; (7) the annual report to senior management on the status of the anti-fraud strategy of DG FISMA; (8) the reports from the Commission's internal Financial Scorecard; (9) the reports to senior management on the status of the budget and procurement processes; (10) the reports from ABAC; and (11) the limited conclusions of the Internal Audit Service (IAS) on the state of internal control.

These reports result from a systematic analysis of the available evidence. 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 covers the control results and other relevant elements that support management's assurance. It is structured into 2.1.1 Control results, 2.1.2 Audit observations and recommendations, 2.1.3 Effectiveness of internal control systems, and resulting in 2.1.4 Conclusions on the assurance.

#### 2.1.1 Control results

This section reports and assesses the elements identified by management which support the assurance on the achievement of the internal control objectives (ICO) <sup>(5)</sup>. The DG's assurance building and materiality criteria are outlined in Annex 5. Annex 6 outlines the

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<sup>(5)</sup> 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). The 2nd and/or 3rd Internal Control Objective(s) (ICO) only when applicable, given the DG's activities.



main risks together with the control processes to mitigate them and the indicators used to measure the performance of the relevant control systems.

Section 2.1 covers all expenditure operations of DG FISMA in both direct and indirect management. DG FISMA's total expenditure in 2021 was **EUR 65.563.712,96** of which EUR 2.072.015,46 administrative expenditure and EUR 63.573.729,54 operational expenditure.

The majority of DG FISMA operational expenditure is linked to the payment of the contributions from the EU budget to the European Supervisory Authorities, **ESAs (75%)** with the remainder being for **grants (14,2 %)** and for **procurement of studies, compliance assessments and data necessary for DG FISMA's activities as well as for membership fees, communication and the operation and development of IT system (7,5%)**. The administrative expenditure of DG FISMA corresponds to 3,2 % of the total payments made <sup>(6)</sup>. DG FISMA does not carry out systematic and significant revenue operations and does not report on them separately. The controls applied at the level of the expenditure in grants, procurement and contributions to the ESAs also cover the 'revenue' operations made in these areas.

DG FISMA did not have any of the following cases in 2021:

- '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 had five cases of "Derogations from the principle of non-retroactivity of grants pursuant to Art 193 FR" (FR art 193.2) as provided for in the regulation established in the Single Market Programme <sup>(7)</sup>.

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<sup>(6)</sup> A more detailed breakdown of DG FISMA's expenditure is provided in Annex 7.

<sup>(7)</sup> Regulation (EU) 2021/690 of the European Parliament and of the Council of 28 April 2021 establishing a programme for the internal market, competitiveness of enterprises, including small and medium-sized enterprises, the area of plants, animals, food and feed, and European statistics (Single Market Programme) and repealing Regulations (EU) No 99/2013, (EU) No 1287/2013, (EU) No 254/2014 and (EU) No 652/2014 (Text with EEA relevance).

**Overview table – Payments made (amounts in EUR million)**

<b>Risk-type / Activities</b>	<b>Grants (e.g. actual costs based, or lump sums, or entitlements)</b>	<b>Procurement (e.g. minor or major values)</b>	<b>Contributions and/or funds to EE (EU Agency, EA, JU)</b>	<b>Total Expenditure</b>
<b>Direct management: Single Market Programme and completion lines)</b>	9.360.259,40	7.028.377,02		16.388.636,42
<b>Indirect management: Contributions to the European Supervisory Authorities (EBA, ESMA, EIOPA)</b>			49.175.076,54	49.175.076,54
<b>Totals (coverage)</b>	<b>9.360.259,40</b>	<b>7 028 377,02</b>	<b>49.175.076,54</b>	<b>65.563.712,96</b>

## 1. Effectiveness of controls

### a) Legality and regularity of the transactions

DG FISMA uses internal control processes to ensure sound management of 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 legality and regularity of transactions is ensured by the ex-ante and ex-post controls made by DG FISMA described in Annex 6. The financial aspects of each operation carried out by DG FISMA are verified by a central team of financial agents that have the necessary competence and training to avoid and detect errors or irregularities. This **centralised control system** strengthens the capacity of DG FISMA to ensure a coherent and systematic application of the rules.

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 those reports, DG FISMA detected no events, control results or issues that could have a material impact on the assurance.

#### *Direct management – Grants and procurement*

The ex-ante checks carried out by DG FISMA on its operations led to both **qualitative and quantitative benefits** in its procurement and grants processes (see Annex 7 for details).

The ex-ante controls on grants are focused on both the financial and operational aspects of the operations. They aim at ensuring that the work done 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 in procurement 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 proportionately corrected. In addition, specific controls are designed

### **Benefits of controls: DG FISMA saved 657.969 EUR in 2021**

- EUR 579.400 due to reduction of EU contribution at the stage of the award process
- EUR 38.457 due to rejection of grants' ineligible costs at payments stage
- EUR 32.013 due to liquidated damages and credit notes
- EUR 8.099 due to recovery of undue amounts from contractors
- 13% of transactions corrected before validation

to secure the rights of contractors and beneficiaries in terms of confidential information and intellectual property rights.

In total, 13% of all transactions made by DG FISMA (commitments and payments) were corrected before their final validation to clear mistakes. 14 payments (5% of the total) were suspended to request clarifications on the eligibility of costs and/or the work carried out under contracts or grant agreements 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/quantitative benefits as indicated in Annex 7 that are particularly linked to the prevention of future errors, which is key for a DG such as DG FISMA that has long-term relationship with its beneficiaries. They also contribute to limiting mistakes of staff members by detecting structural errors in processing the transactions.

In the course of 2021, **DG FISMA did not receive any formal complaints from contractors or beneficiaries**. Divergent opinions linked to either the results of a tender procedure, the eligibility of costs or application of liquidated damages were clarified and settled without leading to either formal complaints or litigation.

In 2021, DG FISMA recorded **2 exceptions and 1 non-compliance event**. Their budgetary implications are very low and they do not reveal structural issues having an impact on assurance. One of the exceptions is linked to the signature of operating grants more than four months after the start of the beneficiaries' financial year. This was linked to the late adoption of the Multi-Annual Financial Framework 2021-2027 and subsequent late adoption of the Single Market Programme <sup>(8)</sup> and the Financing Decision to implement it in 2021. The other events related respectively to a late validation of a mission order and the use of a global commitment to cover expenditure in year N+1 that had not explicitly be foreseen when the global commitment was made.

During the **ex-post checks** carried out on 2021 operations DG FISMA did not detect any major error but only administrative encoding errors.

#### *Indirect management – European Supervisory Authorities*

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's regular working relations with the ESAs, no events or weaknesses of substantial nature were reported/detected that could affect the reputation of the DG, put into question the legality

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<sup>(8)</sup> Regulation (EU) 2021/690 of the European Parliament and of the Council of 28 April 2021 establishing a programme for the internal market, competitiveness of enterprises, including small and medium-sized enterprises, the area of plants, animals, food and feed, and European statistics (Single Market Programme) and repealing Regulations (EU) No 99/2013, (EU) No 1287/2013, (EU) No 254/2014 and (EU) No 652/2014 (Text with EEA relevance).

and regularity of the ESAs' operations or raise concerns about fraudulent activities linked to their transactions.

DG FISMA is not responsible for the management of the funds by the ESAs and does not control the legality and regularity of ESAs' operations in this regard. However, DG FISMA carries out **controls over the contributions paid to the ESAs** as well as any recovery of unused or undue funds. While assessing the programming documents submitted by the ESAs in the context of the annual budgetary process, their requests for contributions submitted in 2021 and their actual cash flow, DG FISMA did not detect any illegal or irregular activity. In the context of such controls, DG FISMA corrected the amounts requested by the ESAs for a total amount of 12.316 EUR.

Within the limits of DG FISMA's governance remit on the ESAs (see Annex 13 for more details), we did not detect, nor were we made aware of, any fact that could prejudice the reliability of the key conclusions mentioned under point C) of the Executive Summary.

Nevertheless, following a resolution of the European Parliament in relation to a situation of conflict of interests of the former Executive Director of EBA having joined a lobby organisation as CEO in 2019, DG FISMA continued to enforce, in coordination with all Commission services, a systematic ban on meetings and contacts with him.

#### *Conclusion on legality and regularity*

Results of the ex-ante controls and ex post checks mentioned in the previous paragraphs and described in detail in Annex 7 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. The COVID-19 crisis had no impact on DG FISMA's assurance of the legality and regularity of its operations. A foreseen on-the-spot control of a grant managed by DG FISMA could not go ahead as had been planned, but the rigorous ex-ante controls on all grants were maintained throughout the period.

DG FISMA's portfolio consists of segments with a relatively low error rate. This is, respectively, thanks to the inherent risk profile of the programme, beneficiaries and funding modalities and the performance of the related control systems.

Through recoveries and financial corrections, DG FISMA has in place an effective mechanism for correcting errors. During the reporting year the executed **corrective capacity amounted in total to EUR 0,07 million representing 0,1 % of the relevant expenditure** <sup>(9)</sup>. The benefit of ex ante level control amounts to EUR 0,07 million, whilst there were no recoveries and financial corrections following the results of ex post controls.

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<sup>(9)</sup> This percentage is calculated on the overall relevant expenditure of DG FISMA which also includes the relevant expenditure covering the payments of the annual contributions to the ESAs (42,67 million) that is by nature not subject to risks of legality and regularity and

DG FISMA's relevant expenditure, its estimated overall risk at payment, estimated future corrections and risk at closure are set out in Table: Estimated risk at payment and at closure.

The **estimated overall risk at payment** for 2021 expenditure amounts to EUR 0,44 million, representing 0,74 % of the DG's total relevant expenditure for 2021. This is the AOD's best, conservative estimate of the amount of relevant expenditure during the year that may not be in conformity with the contractual and regulatory provisions applicable at the time apayment 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 subsequent years. The conservatively **estimated future corrections** for 2021 expenditure amount to EUR 0.05 million.

The difference between those two amounts results in the **estimated overall risk at closure of € 0,38 million**, representing 0,65 % of the DG's total relevant expenditure for 2021.

For an overview at Commission level, the DGs' estimated overall risk at payment, estimated future corrections and risk at closure are consolidated in the AMPR.

**Table: Estimated risk at payment and at closure (amounts in EUR million)**

The full detailed version of the table is provided in Annex 9.

DG FISMA	Relevant expenditure <sup>(10)</sup>	Estimated risk (error rate %) at payment		Estimated future corrections and deductions		Estimated risk (error rate %) at closure	
		(3)		(4)		(5)	
		m EUR	%	m EUR	%	m EUR	%
Direct management - Procurement & administrative expenditure	7,03	0,04	0,5%	0,01	0,1%	0,03	0,4%
Direct management - Grants	9,42	0,19	2%	0,05	0,5%	0,14	1,5%
Indirect management - European Supervisory Authorities	42,67	0,21	0,5%	0	0%	0,21	0,5%

constitutes the vast majority of DG FISMA expenditure. Without considering this very low risk expenditure, the corrective capacity of DG FISMA is 0,4%.

<sup>(10)</sup> The amounts mentioned in this column as 'Relevant expenditure' differ from the 'Payments made' mentioned in previous table. They correspond as explained in Annex 9 to the "Payments made" – "New pre-financings paid" + "Pre-financings cleared".

DG FISMA	Relevant expenditure <sup>(10)</sup>	Estimated risk (error rate %) at payment		Estimated future corrections and deductions		Estimated risk (error rate %) at closure	
(1)	(2)	(3)		(4)		(5)	
	m EUR	m EUR	%	m EUR	%	m EUR	%
<b>DG total</b>	<b>59,12</b>	<b>0,44 EUR</b>	<b>0,74 %</b>	<b>0,05 EUR</b>	<b>0,09 %</b>	<b>0,38 EUR</b>	<b>0,65%</b>

b) Fraud prevention, detection and correction & safeguarding information <sup>(11)</sup>

DG FISMA has developed and implemented its own anti-fraud strategy since 2020, on the basis of the methodology provided by OLAF. It is updated every 3 years. It was last updated in December 2020 taking into account the new Commission anti-fraud strategy <sup>(12)</sup>. Its implementation is monitored and reported to the management twice a year through a specific mid-term report on anti-fraud and in the context of this annual report. **All actions have been implemented.** DG FISMA did not have any financial recommendations from OLAF to follow up in 2021.

DG FISMA also **contributed to several actions of the Commission anti-fraud strategy** by raising staff awareness on professional ethics and anti-fraud matters, sharing best practices with the ESAs and checking plagiarism in final reports by using a dedicated IT tool.

The results achieved during the year thanks to the anti-fraud measures in place can be summarised as follows:

- Six training and awareness-raising actions on ethics and anti-fraud directed to staff, including 'ethics bulletins', a training and a quiz;
- One training dedicated to staff involved in procurement and grants;
- No information leaks reported/detected;
- No cases of violation of data integrity in IT systems managed by DG FISMA;
- No disciplinary cases;
- No referrals of suspicious cases to OLAF and no OLAF own-initiative investigations.

The results of the quiz on ethics showed a high level of staff awareness.

DG FISMA kept strict controls in place to **protect sensitive information** by raising awareness of staff, for example on cybersecurity and cybersafe teleworking. It clarified the rules for sharing information in management meetings and monitored the correct marking

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<sup>(11)</sup> These two internal control objectives are integrated into DG FISMA's antifraud strategy and reported jointly.

<sup>(12)</sup> COM(2019) 196 final.

of sensitive documents. High security standards were applied in daily IT development (e.g. static code analysis, implementation of DG DIGIT’s standards and building blocks, IT security plans).

Given the low value and nature of DG FISMA’s expenditure, the exposure to **fraud entailing financial risks is low** compared to big spending programmes. On the basis of the available information, DG FISMA has reasonable assurance that the antifraud measures in place are effective.

**2. Efficiency of controls**

DG FISMA has reached excellent results in 2021 by recording high scores in all major financial performance indicators (see Annex 4). This reflected the efforts deployed during the year to properly plan and monitor budget implementation, ensure the timely payment of invoices and ensure accounting quality.

**Time-to-pay, decommit, invoice**

Timely Payments	FISMA Score	EC Score
	<b>100%</b>	<b>98%</b>

Very close to 100% of the total value of payments were made on time (compared to 91% last year) <sup>(13)</sup>. Only 3 payments out of 254 were executed late. The average net time to make a payment in DG FISMA was 16,5 days which is stable compared to 2020 (16.8).

DG FISMA registered incoming invoices within an average time of 2 days confirming the positive results of previous years (1,6 days). Only 4 invoices were registered late. As last year DG FISMA also made 100% of its decommitments on time.

**Budget implementation**

DG FISMA implemented 100% of its commitment and payment appropriations expiring in 2021 which confirms the positive results of last year. As in previous years, DG FISMA showed an excellent budgetary forecasts of commitments and payments (100%).

<sup>(13)</sup> Article 116.1 of the Financial Regulation. See also Table 6 of Annex 3 and Annex 4.



## Time-to-award

Tenders were awarded within an average of 136,5 days from the invitation to tender to the award (in line with the average of last year of 139,7 days). This constitutes an efficient result considering the technical and operational complexities involved in the preparation of high quality tender documents and the need to ensure that bidders had sufficient time to prepare their offers.

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.

### 3. Economy of controls

DG FISMA calculated the costs of all staff members involved in functions/activities related to financial and programme management. This also included horizontal tasks such as budget and accounting and – when linked to spending programmes – antifraud, legal cases, internal control and strategic planning.

The overall costs of controls related to all DG FISMA expenditure in both direct and indirect management corresponded to **2,2% of the payments made**. The overall costs of controls remain stable compared to 2020 (3%) and 2019 (2,9%) and below 5% of DG FISMA expenditure in line with the objectives established in the Management Plan. The decrease is due to the fact that in 2021, and partly due to the COVID-19 lock-down, no controls were made in several areas of expenditure that were previously subject to checks (e.g. controls linked to the organisation of physical conferences and events, costs linked to the evaluation of previous grant's programmes or the work on specific legal cases).

OVERALL INDICATORS				
Description	Type of expenditure	Year 2019	Year 2020	Year 2021
<b>Total costs of controls/ value</b>	Operational and	2,9%	3%	<b>2,2%</b>

<b>of payments made</b> <sup>(14)</sup>	administrative expenditure			
	Only operational expenditure	2,2%	2,3%	<b>1,9%</b>

With the inheritance of sensitive IT systems which were not operational in 2020, DG FISMA also started calculating the costs of controls linked to the protection of sensitive information and the security of IT systems. These costs are estimated to be indicatively EUR 350.000 <sup>(15)</sup> and are not linked to expenditure.

#### **4. Conclusion on the cost-effectiveness of controls**

Based on the most relevant key indicators and control results, 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 main drivers that contribute to DG FISMA's cost of controls are linked to the **basic checks being done by staff on a high number of low value transactions** (e.g. administrative expenditure and contracts with a relatively low value, including IT) and to operations such as the preparation of procurement procedures for studies, including drafting of tender specifications. Such basic checks, regardless of the value of the transactions made, cannot be reduced since they contribute to ensure the legality and regularity of the transactions.

In 2021 DG FISMA continued to implement **initiatives to improve efficiency in financial management** for example by fostering the use of framework contracts, using electronic workflows for all its financial circuits and shared platforms to facilitate better monitoring of the use of resources and implementation of contracts.

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<sup>(14)</sup> 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). In the nominator the costs include not only costs of staff involved in financial management but also costs of staff carrying out horizontal tasks not attributable to direct management or indirect management specifically: budget and accounting, and - if linked to the policy or operational dimension of spending programmes - the costs of evaluations, internal control, antifraud, audits, financial procedures and strategic planning activities. For more detailed information on the calculation method used, refer to Annex 7.

<sup>(15)</sup> Including the staff efforts of DG FISMA and the costs of outsourcing to ICT security specialists.

## 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.

Based on all work undertaken by the Internal Audit Service (IAS) in the period 2019-2021, and namely:

- the Limited review on the implementation of the new internal control framework (2020)

and taking into account that:

- Management has accepted all the recommendations issued;
- Management has adopted action plans to implement all the accepted recommendations. The IAS considers that these action plans are adequate to address the residual risks identified by the auditors;
- The implementation of these action plans is monitored through reports by management and follow-up audits by the IAS;
- Management has assessed an action plan as implemented which has not yet been followed up by the IAS.

The IAS concluded that the internal control systems in place in DG FISMA for the audited processes are effective.

The **IAS** did not conclude any new audit on DG FISMA operations in 2021. DG FISMA finalised the implementation of the recommendations linked to the IAS audit of 2017 on the production process and quality of statistics not produced by Eurostat. These recommendations could not be formally closed earlier because DG FISMA was awaiting the finalisation of corporate rules on the matter. DG FISMA also communicated to the IAS the closure of the recommendations linked to the IAS audit on the effectiveness of DG FISMA's performance management system carried out in 2018. None of these recommendations was 'critical' or 'very important' and had no material impact on the achievement of DG FISMA's internal control objectives.

The **European Court of Auditors** finalised the following audits that involved DG FISMA, none of which was linked to financial management or internal control:

- Anti-Money Laundering - EU efforts to fight money laundering in the banking sector are fragmented and implementation is insufficient (Special Report 13/2021). Main auditee: DG FISMA.
- Sustainable Finance - More consistent EU action needed to redirect finance towards sustainable investment (Special Report 22/2021). Main auditee: DG FISMA

- Post Programme Surveillance - Commission's surveillance of Member States exiting a macroeconomic adjustment programme: an appropriate tool in need of streamlining (Special Report 18/2021). Main auditee: DG ECFIN, DG FISMA associated.
- Resolution planning in the Single Resolution Mechanism (Special Report 01/2021). Main auditees: DG FISMA and SRB.
- Annual audit on any contingent liabilities arising as a result of the performance by the Single Resolution Board, the Council or the Commission of their tasks under Articles 63(2) and 92(4) of the "Single Resolution Mechanism" Regulation 806/2014 (annual report 11/2021).
- Investment Funds - Has the EU created a single market for investment funds ensuring investor protection and financial stability? (Special Report to be published). Main auditee: DG FISMA.

These audits did not lead to any substantial recommendations for the DG.

**More audits by the European Court of Auditors involving DG FISMA were on-going** in 2021, none of which was linked to financial management or internal control:

- EU Financial Architecture (Is the current EU financial architecture ("the Budget Galaxy") adequately designed for funding EU action?). DG FISMA associated.
- NGEU debt management at the Commission (Has the Commission developed effective systems to manage debt raised to finance the NGEU?) Main auditees: DG BUDG and DG ECFIN; DG FISMA associated.
- Performance audit of the European Central Bank's management of NPLs. Main auditee: ECB; DG FISMA associated.

The **Ombudsman** concluded two cases related to DG FISMA in 2021, one relating to request for an authorisation under the EU 'Blocking Statute' <sup>(16)</sup> and another to the composition of the High Level Forum on the EU Capital Markets Union and alleged conflicts of interest of some of its members <sup>(17)</sup>.

### 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

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<sup>(16)</sup> Complaint 260/2021/JN.

<sup>(17)</sup> Complaint 1777/2020/KR.

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 <sup>(18)</sup> and has concluded that it is effective and the components and principles are present and functioning well overall, but some improvements are needed as minor deficiencies were identified related to the timely update of the assessment of sensitive functions and the annual review of data processing operations.

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. Actions are also already ongoing to rectify the identified deficiencies. 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 8.

#### 2.1.4 Conclusions on the assurance

According to the information provided in the previous sections of this report:

- DG FISMA's **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. They have allowed DG FISMA to correct errors and ensure an efficient implementation of the budget. They have also brought important qualitative benefits.
- **No legal proceedings** were initiated by tenderers/contractors/beneficiaries and divergent views on a few cases were settled without leading to formal litigation cases. The complaints received by the Ombudsman in 2021 do not have an impact on the assurance.
- The **IAS's conclusion on the state of control for 2021** is positive. The European Court of Auditors did not raise observations on DG FISMA's financial management and internal control system.
- DG FISMA's **assessment of the presence and functioning of its internal control framework** was comprehensive and did not detect deficiencies having an impact on assurance. The minor deficiencies identified were accompanied by adequate remedial measures.
- DG FISMA continued to implement its **antifraud strategy** to prevent, detect and correct fraud and irregularities, protect sensitive information and ensure a high level of staff awareness on their ethics obligations.
- 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

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<sup>(18)</sup> See Annex 8 for details on the process and sources used for this assessment.

the payment of the annual contribution to them and the efficiency of the annual budget programming.

- The assessment of the elements above is corroborated when needed by **adequate evidence** (reports to managers or data extracted from IT tools), is **complete** and **comprehensive** and covers all budget areas of DG FISMA.
- Deficiencies and deviations from targets are transparently reported and explained and **no significant information has been omitted** from this report.

In conclusion, based on the elements reported above, 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

### **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 <sup>(19)</sup>.*

*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 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, 31/03/2022

(Signed)

Sean BERRIGAN

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<sup>(19)</sup> True and fair in this context means a reliable, complete and correct view on the state of affairs in the DG.

## 2.2. Modern and efficient administration – other aspects

### 2.2.1 Human resource management

In 2021, DG FISMA maintained its efforts to employ a competent and engaged workforce in support of the priorities set out by the von der Leyen Commission. The highly committed staff demonstrated its ability to adapt during COVID times whilst maintaining the same levels of efficiency, delivering on key Commission political priorities even in a context of stretched resources.

The DG's efforts in 2021 aimed at further improving **collaborative work** based on trust at all levels of our organisation where staff could deploy its full potential. The DG's matrix structure with work in **project teams** also played an important role by complementing unit work and improving the allocation of resources and workload. This flexible approach also offered a collaborative cross-team/cross-DG platform to increase and share know-how and allows staff to progress and develop newly acquired skills and roles (e.g. as project team leaders).

To enhance cohesion and inclusion both horizontally and vertically in the DG, DG FISMA favoured better knowledge-sharing and building **networks across the DG** by

- integrating new staff by offering regular **newcomers' trainings** informing on DG FISMA policies, processes and culture at least twice a year. The **mentoring and buddy-on-the-job schemes** were also relaunched. All newcomers were also systematically invited to an introductory meeting with the Director-General and his assistant.
- making (senior) management accessible (e.g. mini-coachings for staff members by Directors, access to the Director-General);
- maintaining and developing further **networks among peers** (esp. AST professionalization, development programmes and group coaching for specific audiences such as Deputy Heads of Unit, female talents, ...);
- giving trainings *for* and *by* staff in the form of DG FISMA **Knowledge Hours**. Following the trend of previous years, in 2021 knowledge hours were a complete success not only in terms of attendance rate but also on the willingness of colleagues to share their know-how;
- focusing on **talent management** to prepare staff for new job opportunities.

The close partnership between the HR BC team and DG FISMA's communication unit enhanced effective **internal communication within the DG**, which continued to be crucial during 2021 as remote working remained the norm for most staff and important changes to ways of working were announced (so called "new normal"). DG FISMA held remotely very regular **all staff meetings** to keep staff informed about both policy, with the regular participation of the Commissioner, and organisational developments and to give them an opportunity to engage. **All staff were actively encouraged to contribute**



**ideas** on an on-going basis either via polls in all staff meetings, via comments on the intranet pages, via emails to the BC team and calls, and use of targeted focus groups (i.e. creation of a working group on new normal gathering colleagues of all grades and contracts playing as a sounding board reporting to Senior Management). This allowed DG FISMA to contribute actively and in detail, in a representative way, to all the substantial discussions taking place at corporate level (including around the new normal, working time decision, new HR strategy, and greening of the Commission).

Special focus was given in 2021 to **inclusion and equality** with the development of a DG FISMA Equality Mainstreaming Workplan. The Equality Mainstreaming Workplan was the first ever developed for DG FISMA. It covered both the way in which DG FISMA is including equality considerations in its policy work and the way DG FISMA is taking action to promote equality, diversity and inclusion among its staff. The Equality Mainstreaming Workplan identified the main policy actions in DG FISMA in 2021 having a significant impact on citizens, like accessibility, digitalization of financial services, or financial literacy. For its own staff, DG FISMA devised actions to promote women in their career, to support newcomers and to help staff close to retirement.

Specific measures were also taken (Female Talent Development programme, development of a new talent programme for women in collaboration with other economic DGs, first female appointments to management positions) to meet **gender balance** targets (achieve 50% and beyond of female middle and senior managers by 2024). Real progress on this front has been made over the last year, in particular with the appointment of two women as Deputy Director-General and Director respectively. These new appointments at Senior Management level allowed new networking possibilities with female managers within the DG. Also appointments of women at middle management positions exceeded DG FISMA target.

All these elements as well as feedback from various groups, and most importantly new regular discussions held by the senior management board on human resources, will feed into DG FISMA's **local HR strategy** due for adoption during the first half of 2022 and in line with the corporate HR strategy.

### 2.2.2 Digital transformation and information management

A major IT achievement in 2021 was the ColdFusion phase-out in BASIS 1 and the roll-out of the brand new Commission briefings management system (**BASIS 2**) developed and maintained by DG FISMA to all Commission DGs and several agencies, including the training of users. It involves a new technological stack and offers new user-friendly features.

New functionalities were also added to DG FISMA's Events Management Tool (**EMT**) that supports stakeholder relations management. The phasing out of ColdFusion was completed for the legislation repository **KOEL** and started for the IT contracts management system **MICE**. EMT and KOEL were rolled out in three more DGs thereby offering their modernisation potential for standards business needs to a broader range of users. DG FISMA supported the corporate effort to transform internal communication and

collaboration by moving to the **M365 suite of tools**. An information management policy was implemented for the DG's SharePoint sites to save storage space and reduce digital waste.

Three DG FISMA IT systems support broader policy implementation. The **Financial Sanctions IT cluster** underwent major development by adding the Ships Sanctions Registry. New features were added to the **EU Taxonomy Compass** that facilitates the use of the sustainable finance taxonomy by market participants. DG FISMA also transferred **FIU.net** from Europol and stabilised its availability, integrity and performance. FIU.net allows the Financial Intelligence Units (FIUs) to exchange data on suspected cases of money laundering. Preparatory work was undertaken for a Digital Finance Platform.

DG FISMA adopted its **Quality framework and Guidelines for the statistical activity and data acquisitions**. Its objective is to set up the methodological framework for ensuring the high quality of the statistics produced or acquired by DG FISMA.

With the same objective, and to reinforce the coordination of its statistical needs, DG FISMA further continued the operationalization of its Centre of expertise for data, setting up a **network of statistical correspondents** responsible for maintaining and providing support on data assets and resources.

In addition, DG FISMA continued work on an improved and modernised **internal data infrastructure**. It developed and tested the main elements of such infrastructure – data retrieval, storage and visualisation - and has used them to implement nearly 30 indicators for the CMU dashboard. Based on this successfully completed use-case, DG FISMA continued expanding the scope of the infrastructure to additional policies.

The procedures related to **data protection** are described in detail and accessible to all staff. DG FISMA continued to raise staff awareness on data protection by organising trainings for all DG FISMA staff in cooperation with the European Data Protection Supervisor (EDPS), and for newcomers (twice in 2021). Three data breaches were recorded in 2021 which were all detected and dealt with timely. In 2021, DG FISMA initiated a review of its data protection records, which will continue in 2022.

### 2.2.3 Sound environmental management

DG FISMA continued contributing to an environmentally friendly Commission by pursuing the related objectives in its Strategic Plan and the Commission's **EMAS action plan to become carbon neutral by 2030**.

It implemented several actions to raise staff awareness on the **digital carbon footprint** by providing tips how to reduce it and by promoting corporate campaigns run by DG DIGIT. DG FISMA also adopted a new information management policy for SharePoint to reduce digital waste by automatically deleting obsolete documents, limit the saving of minor versions and monitoring monthly the storage of each unit.

In addition, DG FISMA continued to raise staff awareness on the use of the **waste sorting** stations recently installed in the building.

In 2021 DG FISMA won a special award in the **sustainable events competition** for an event organised in 2020. The event took place just before the outbreak of COVID-19 and represented one of the first hybrid events in the Commission with the participation of more than 15.000 people.

#### 2.2.4 Examples of economy and efficiency

DG FISMA implemented a **new information management policy** to automatically clean SharePoint sites from outdated versions of documents. This saves staff time and reduces storage space.

In 2021, DG FISMA has also continued to work to improve and modernise its **internal data infrastructure** as mentioned in section 2.2.2 of this report.