



2017

Annual Activity Report

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



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THE DG IN BRIEF

The European Commission's Directorate-General for Financial Stability, Financial Services and Capital Markets Union (DG FISMA) is responsible for initiating and implementing policies relating to the EU's financial sector. It is based in Brussels and has approximately 380 employees. The DG is composed of 5 directorates and 21 units.

DG FISMA is managed by Director-General Olivier Guersent under the political authority of Vice-President Valdis Dombrovskis in charge of the Euro and Social Dialogue and responsible for Financial Stability, Financial Services and Capital Markets Union. DG FISMA also contributes to projects steered by Vice-President Jyrki Katainen in charge of Jobs, Growth, Investment and Competitiveness.

DG FISMA's mission is to develop stable, well-regulated and globally competitive EU financial markets in the interest of businesses, investors and consumers. To this end, the DG presents and monitors the effectiveness of financial sector reforms, responds to emerging financial-stability risks and ensures that relevant EU legislation is fully implemented. To improve access to funding for businesses, especially SMEs, and thereby promote growth and job creation, the DG is bringing forward initiatives to create an EU-wide Capital Markets Union. DG FISMA is working closely with the three European supervisory authorities for banking, insurance and securities.

More specifically, the DG's work involves:

- initiating policies that contribute to investment, growth and jobs in the EU by improving the long-term financing of the economy while safeguarding financial stability. This requires further progress towards a well-regulated Capital Market Union encompassing all Member States;
- consolidating financial reforms while adapting them to changed circumstances where necessary, and ensuring that EU legislation is properly enforced;
- presenting new policy initiatives to ensure that financial markets are well regulated and supervised;
- making financial services work better for consumers and retail investors;
- monitoring financial-sector developments and structures in the Member States and ensuring satisfactory implementation of EU legislation at national level; and
- working closely with international partners to promote consistent regulation and the implementation of agreed standards and principles around the world.

EXECUTIVE SUMMARY

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

As set out in its Strategic Plan, DG FISMA will, over the period of 2016-2020, contribute to the following three general objectives:

1. A New Boost for Jobs, Growth and Investment
2. A Deeper and Fairer Internal Market with a Strengthened Industrial Base
3. A Deeper and Fairer Economic and Monetary Union

The DG contributes to these general objectives through various specific objectives, as well as yearly outputs which are set each year in the annual Management Plan. In this executive summary the key achievements over 2017 are described per general objective. A full narrative on the results over 2017 can be found in Part 1 of this Annual Activity Report as well as in more detail in the performance tables in Annex 12.

A New Boost for Jobs, Growth and Investment

The **Capital Markets Union** encompasses the reforms of our financial system needed to enable the flow of private capital to fund the EU's pressing investment challenges – in the domains of infrastructure, energy transition, and particularly in the financing of growing businesses.

The Capital Markets Union seeks to better connect savings to investment and to strengthen the EU financial system by enhancing private risk-sharing, providing alternative sources of financing, and increasing options for retail and institutional investors. Removing obstacles to the free flow of capital across borders will strengthen the Economic and Monetary Union by supporting economic convergence and helping to cushion economic shocks in the euro area and beyond, making the EU economy more resilient.

In 2017, further progress has been made towards the implementation of the **Capital Markets Union Action Plan**. Among other successes, the following milestones were reached:

- Adoption by the co-legislators of the legislative proposals for the review of **European Venture Capital Fund Regulation (EuVECA)** in May 2017
- Adoption by the co-legislators of the legislative proposals for **simple, transparent and standardised (STS) securitisation** in November 2017
- Adoption by the Commission of proposals for a **Pan-European Personal Pension Product (PEPP)** in June 2017
- Adoption by the Commission of a proposal for the **revision of the powers, governance and funding of European Supervisory Authorities (ESAs)** in September 2017
- Adoption by the Commission of a proposal on the **supervision of Central Counterparties (CCPs)** in June 2017
- Adoption by the Commission of the **Consumer Financial Services Action Plan** in March 2017

In June 2017, the Commission adopted the **Capital Market Union Mid-term Review** and took further steps to drive forward the CMU to ensure that this reform programme remains fit for purpose. The Mid-Term Review reports on the good progress made so far in implementing the 2015 CMU Action Plan, with around two-thirds of the 33 actions delivered in the first twenty months. The Mid-Term Review also sets out nine new priority actions.

A Deeper and Fairer Market with a Strengthened Industrial Base

In March 2017, the Commission adopted the **Consumer Financial Services Action Plan**, which sets out the Commission's strategy to move towards a genuine technology-enabled Single Market for retail financial services. The 12 actions contained in the Action Plan will contribute to three key policy goals:

- **reducing** the costs of payments also for Europeans not using the euro
- **fostering** more competition within Member States
- **facilitating** cross-border provision of retail financial services.

In 2017 significant progress was made on the November 2016 package of proposals to further improve resilience and reduce risks in the banking sector. Some elements of this **banking package** were fast-tracked and swiftly agreed between co-legislators:

- on transitional arrangements for mitigating the impact of the introduction of **International Financial Reporting Standard (IFRS) 9**
- and for the **large exposures treatment** of certain public sector exposures
- as well as the proposal on the **Bank Creditor Hierarchy Directive**, which creates a new class of senior non-preferred debt, instrumental in achieving a partial harmonisation for the market of subordinated instruments in the EU.

A deeper and Fairer Economic and Monetary Union

Following the adoption of the Council roadmap to complete the Banking Union in June 2016, the latest key developments in 2017 are the following:

- On 11 October 2017, the College adopted a **Communication on completing the Banking Union** presenting a number of ideas to address concerns related to legacy risks and moral hazard with the view to unblock the negotiations.
- In parallel, following the publication of the European Parliament's **draft report on EDIS**, the European deposit insurance scheme, on 4 November 2016, subordinating the start of the second phase of EDIS to a number of de-risking measures, the European Parliament Rapporteur and the Shadow Rapporteurs have continued negotiations.
- On 6 December 2017, the Commission adopted the **EMU package** which proposed a European Monetary Fund (EMF) and integrates the European Stabilisation Mechanism into the Union framework. The EMF would also become the backstop provider to the Single Resolution Fund. On the latter topic, alongside DG ECFIN, DG FISMA closely contributed to the development of the proposed policy and continued representing the Commission in the technical work ongoing in the Task Force on Coordinated Action.

Other work

In 2017 the DG was also involved in many other work streams. The DG participated for instance in the **European Systemic Risk Board (ESRB) Expert Group on safe bonds (ESBies)**, and supported the **High Level Expert Group on Sustainable Finance. Implementation of financial services legislation** in Member States continued to be a key issue for the DG. In the DG kept monitoring Member State progress closely and will contribute on a regular basis to reports for the ECOFIN Council. In addition to this, the DG continued to **assess and monitor financial markets**, also at country level in the context of the **European Semester**.

b) Key Performance Indicators (KPIs)

Result/Impact indicator (description)	Target (or milestones) as per Strategic Plan 2016-2020				Latest known results as per Annual Activity Report		
PUBLIC EQUITY: NEW EQUITY ISSUANCE YEAR-ON-YEAR GROWTH	Source of data: European Central Bank, Data Warehouse.					2017: 0,55%	
	Baseline	Interim Milestones		Target			
	2014 Average	2015	2016	2020			
	0,4%	0,45%	0,5 %	0,55%			
SHARE OF MARKET FUNDING IN TOTAL OUTSTANDING DEBT	Source of data: ECB Statistical Data Warehouse.					2017: 19.7%	
	Baseline	Interim Milestones			Target		
	2014 Average	2015	2016	2017	2018		2019
	16.3%	16.6 %	16.9 %	17.2 %	17.5 %		17.8%
INSURANCE COMPANIES' INVESTMENTS IN INFRASTRUCTURE	Source of data: European Insurance and Occupational Pensions Authority (EIOPA) as of mid-2016.					2017: No quantitative data available before the adoption of a Solvency II amendment on infrastructure. EIOPA has been working on data on insurers' investments in various asset categories, but the reporting templates which insurers use (which are in an ITS) were only modified to	
	Baseline	Interim Milestone		Target			
	mid-2015 Before the adoption of a Solvency II amendment on infrastructure.	2018		2019			
	No quantitative data available at this point.	A first increase.		A general increase in insurance companies' investment in infrastructure by 2019.			

				include qualifying infrastructure during 2017, and the first reporting using those new templates will be available from May 2018.	
AVERAGE OF INWARD AND OUTWARD INTRA-EU FOREIGN DIRECT INVESTMENT (FDI)	Source of data: Eurostat: Balance of Payments, European Union direct investments [bop_fdi6] and GDP and main components (output, expenditure and income) [nama_10_gdp].			2016: 2%	
	Baseline	Interim Milestone		Target	
	2013	2016		2018 A higher index indicates higher new cross-border direct investment during the period in relation to the size of the economy as measured by GDP. If this index increases over time, intra-EU direct investment is becoming more integrated.	
	2%	Stable increase.		Stable increase.	
NUMBER OF INFRINGEMENTS FOR NON-CONFORMITY CLOSED WITHIN BENCHMARK	Source of data: NIF Database.			No cases open three years after their registration.	
	Baseline	Interim Milestones			Target
	2015	2017	2018		2020
	No specific benchmark is set for the non-conformity assessment. However, a three-year benchmark is set for all	10	5		No cases open three years after their registration by 2020.

	Article 258 TFEU infringements. There are currently 14 cases still open >3 years since their registration.				
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c) Key conclusions on Financial management and Internal control (executive summary of section 2.1)

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

The Commission has adopted a set of internal control standards, based on international good practice, aimed to ensure the achievement of policy and operational objectives. The financial regulation requires that the organisational structure and the internal control systems used for the implementation of the budget are set up in accordance with these standards. DG FISMA has assessed the internal control systems during the reporting year and has concluded that the internal control standards are implemented and function as intended. Please refer to AAR section 2.1.3 for further details.

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

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

d) Provision of information to the Commissioner(s)

In the context of the regular meetings during the year between the DG and the Commissioner on management matters, also the main elements of this report and assurance declaration, have been brought to the attention of Vice-President Valdis Dombrovskis, responsible for the Euro and Social Dialogue and Directorate-General Financial Stability, Financial Services and Capital Markets Union (DG FISMA).

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

As part of the Commission's performance management framework, Directorate-Generals identified those political priorities determined by President Juncker in 2014 towards which they could contribute the most. These long-term priorities were set as "general objectives" in the multi-annual "Strategic Plan" 2016-2020 which is designed to orient the work of the DGs.

In its Strategic Plan¹, DG FISMA selected three general objectives that closely correspond to these priorities:

1. A New Boost for Jobs, Growth and Investment
2. A Deeper and Fairer Market with a Strengthened Industrial Base
3. A Deeper and Fairer Economic and Monetary Union

The DG has formulated specific objectives that contribute to achieving the goals set under the general objectives. Progress under the general and specific objectives is being measured through indicators, designed to show how the DG is contributing to the overall objectives.

In addition to this, the DG is expected to plan each year the main outputs for that year. For 2017 this was done in the Management Plan 2017. This Annual Activity Report reports on the progress made in 2017, on the basis of the outputs and their targets as set out in that Management Plan.

The performance tables in Annex 12 provide a full overview of the extent to which the DG reached the 2017 Management Plan targets. In this section, the focus is on key policy achievements in 2017.

In a limited number of cases in 2017, targets were either achieved later in the year than expected, or the target is expected to be achieved in 2018. In terms of achieving goals, DG FISMA is in many cases also dependent on other actors. The causes for delay can be due to various reasons: internal, external or a combination of both. Internal delays can, for instance, be caused by discussions between DG FISMA and other Commission services taking longer than expected. External delays are often on the side of co-legislators and can, for instance, result in a situation where trilogues on a legislative file cannot start until both co-legislators have agreed on a negotiating mandate.

¹ https://ec.europa.eu/info/publications/strategic-plan-2016-2020-financial-stability-financial-services-and-capital-markets_en

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

The **Capital Markets Union (CMU)** is a key pillar of the Commission's Investment Plan for Europe: the so-called "**Juncker Plan**". Through a mix of regulatory and non-regulatory reforms, this project seeks to better connect savings to investments. It aims to strengthen Europe's financial system by providing alternative sources of financing and more opportunities for consumers and institutional investors. For companies, especially SMEs and start-ups, the CMU will facilitate access to more funding opportunities, such as venture capital and crowdfunding.

On the basis of the Capital Markets Union Action Plan of September 2015, important progress has been made in 2017 towards its implementation. Deliverables included:

- Adoption by the co-legislators of the legislative proposals for the review of **European Venture Capital Fund Regulation (EuVECA)** in May 2017 and for **simple, transparent and standardised (STS) securitisation** in Nov 2017;
- Adoption of the **Money Market Funds Regulation** in June, and in November the Commission received advice from ESMA relating to MMF level 2, which is foreseen to be adopted mid-2018.
- Following the rejection by the European Parliament of the **Packaged retail and insurers based investment products (PRIIPs)** level 2 Regulatory Technical Standard in 2016 and the deferred application of the PRIIPs Regulation until 1 January 2018, revised regulatory technical standards (RTS) were approved in March. They were followed by Commission interpretative guidance in July, and several batches of ESA Q&A's in July, November and December.
- Proposals for a **Pan-European Personal Pension Product (PEPP)** in June 2017 and for the revision of the powers, governance and funding of European Supervisory Authorities (ESAs) in September 2017;
- Adoption of the **Consumer Financial Services Action Plan** in March 2017;
- Monitoring the correct application of art. 63 TFEU, **the free movement of capital**. The Commission published an interpretative communication on the acquisition of farmland and European Union law in October 2017. The DG also published a staff working document which reviewed recent developments in EU capital flows and described the main policy initiatives taken in support of the free movement of capital and the freedom of payments in February 2017.
- Strengthening feedback given by banks when declining **SME credit applications** in May 2017. Five main European banking federations developed high-level principles to improve banks feedback on SME declined credit applications with the Commission support.
- With respect to the "**Vienna Initiative**", the desired objectives were realised. The Working Group on CMU identified the challenges and recommended policy actions to support development of capital markets in Central and Eastern Europe. The final text of the report is expected to be endorsed at the Full Forum of the Vienna Initiative in March 2018.
- Adoption of proposals in December 2017, setting out a **new prudential framework for all investment firms** which are not considered systemic. The new framework sets out revised rules for capital, liquidity and other requirements more in line with the business models and risk profiles of these investment firms together with updates for their prudential supervision.

In September 2017, the Commission proposed **strengthening the European Supervisory Authorities** by enhancing their role and providing them with more effective decision making arrangements and a sustainable funding mechanism. DG FISMA is closely involved in the discussions of both co-legislators.

In June 2017, the Commission adopted the **Capital Market Union Mid-term Review** and took further steps to drive forward the CMU to ensure that this reform programme remains fit for purpose. The CMU remains at the heart of the Commission's efforts to boost European investment and create jobs and growth. As the EU faces the departure of the largest EU financial centre, we are committed to stepping up efforts to further strengthen and integrate the EU capital markets.

The CMU Mid-Term Review reports on the good progress made so far in implementing the 2015 CMU Action Plan, with around two-thirds of the 33 actions delivered in the first twenty months. The CMU Mid-Term Review also sets out the following nine new priority actions:

1. strengthen the powers of European Securities and Markets Authority to promote the effectiveness of consistent supervision across the EU and beyond;
2. deliver a more proportionate regulatory environment for SME listing on public markets;
3. review the prudential treatment of investment firms;
4. assess the case for an EU licensing and passporting framework for FinTech activities;
5. present measures to support secondary markets for non-performing loans (NPLs) and explore legislative initiatives to strengthen the ability of secured creditors to recover value from secured loans to corporates and entrepreneurs;
6. ensure follow-up to the recommendations of the High Level Expert Group on Sustainable Finance;
7. facilitate the cross-border distribution and supervision of undertakings for collective investment in transferable securities (UCITS) and alternative investment funds (AIFs);
8. provide guidance on existing EU rules for the treatment of cross-border EU investments and an adequate framework for the amicable resolution of investment disputes;
9. propose a comprehensive EU strategy to explore measures to support local and regional capital market development.

Securities markets

In the area of securities markets the outstanding **delegated acts under MiFID II** (Directive on Markets in Financial Instruments), such as the regulatory technical standards on package transactions and the trading obligation for derivatives were adopted. These technical standards are key to deliver on the key objective of the MiFID II framework, such as more transparent and orderly trading on venues.

Finally, we have also been actively involved in the preparation of **delegated legislation under the Benchmark Regulation**. All key delegated acts have now been adopted and the work on regulatory technical standards is fairly advanced for the adoption scheduled in Spring.

General objective 2: A Deeper and Fairer Market with a Strengthened Industrial Base

Call for evidence

In December 2017, the Commission presented a report on the **follow-up to the Call for Evidence on EU financial services regulation**. The Call for Evidence was launched in 2015 to assess whether the rules adopted since the financial crisis were working as intended. It led to additional measures to make EU financial regulation more proportionate and to reduce unnecessary regulatory burdens on market players. The follow-up report shows that the Commission has delivered on the majority of the commitments made in its 2016 Communication on the Call for Evidence and, going forward, remains committed to better regulation as its basic working method.

Retail financial services and payments

On 23 March 2017, the Commission adopted the **Consumer Financial Services Action Plan**, which sets out the Commission's strategy to move towards a genuine technology-enabled Single Market for retail financial services. The 12 actions contained in the Action Plan will contribute to three key policy goals: (i) reducing the costs of payments also for Europeans not using the euro, (ii) fostering more competition within Member States and (iii) facilitating cross-border provision of retail financial services.

On 24 November 2017, the Commission adopted, in relation with the Second Payment Services Directive, **regulatory technical standards on strong customer authentication and secure communication channels**. The aim of this RTS is to significantly reduce current fraud levels for all payment methods, especially online payments, and to protect the confidentiality of users' financial data. The RTS is expected to be published in the Official Journal of the Union in March 2018. It will apply 18 months later.

Banking

The examination by the Council and the European Parliament of the Commission's 2016 proposal to amend the EU prudential framework applicable to institutions continued throughout 2017. Part of the proposal, concerning transitional arrangements for mitigating the impact of the introduction of International Financial Reporting Standard (IFRS) 9 and for the large exposures treatment of certain public sector exposures, was spun off from the main proposal and subject to an accelerated legislative procedure; it was adopted by Council and European Parliament in December 2017 and published in the Official Journal in the same month.

In addition, eight EU delegated and implementing acts were adopted during 2017 to further specify parts of the prudential framework in the areas of credit risk, liquidity, benchmarking of models, reporting, and disclosure.

A report providing an assessment of the setting up and functioning of the Single Supervisory Mechanism was published in October 2017. The report acknowledges that the supervisory pillar of the Banking Union has been successfully put in place and is fully functional, with clear added benefits in terms of financial stability and market integration.

Insurance

In the area of Solvency II, following an amendment in 2016 to the Solvency II Delegated Act introducing **more appropriate risk weights for insurers' investments infrastructure projects**, the same was done in 2017 for infrastructure corporates (corporates correspond to the operational phase of infrastructure, whereas projects correspond more to the construction phase). This should contribute to facilitating insurers' investments in this important growth-creating sector.

Negotiations for an EU/US agreement on insurance and reinsurance were concluded with an agreement early in 2017, and formal signature of the Agreement followed later in the year. The Agreement in particular removes prudential barriers to the operation of reinsurers of each jurisdiction in the other, and also streamlines prudential supervision of insurance groups operating in the other jurisdiction. Work on implementation of this Agreement is now under way.

Financial markets infrastructure

Building on the work undertaken in 2016, in 2017 DG FISMA presented two legislative proposals to improve the efficiency and stability of EU derivatives markets. The first, adopted in May 2017, was the European Market Infrastructure Regulation (EMIR) REFIT proposal which was designed to improve the efficiency, effectiveness and proportionality of EMIR requirements vis-à-vis specific actors, notably to non-financial counterparties, pension funds and small financial counterparties, as well as to remove obstacles to clearing and simplify the rules, including reporting requirements, without putting financial stability at risk. The second proposal, adopted in June 2017, was the EMIR proposal on CCP supervision. The proposal introduces a more pan-European approach to the supervision of EU CCPs, to ensure further supervisory convergence and accelerate certain procedures. The proposal also ensures closer cooperation between supervisory authorities and central banks responsible for EU currencies. For non-EU CCPs, the proposal builds on the existing third-country provisions in EMIR and will make the process of recognising and supervising third-country CCPs more rigorous for those which are of key systemic importance for the EU.

In parallel, technical improvements were made to improve the functioning of the framework for derivatives. In particular, the Commission adopted ESMA's proposals to amend the framework for indirect clearing as well as a new framework for indirect clearing under MiFIR. The Commission also adopted a proposal postponing the applicability of the clearing obligation for small financials. In addition, the Commission adopted several proposals from ESMA to improve the quality of data reported to and disclosed by trade repositories.

The Commission also adopted a number of reports: on the international treatment of central banks and public entities managing public debt with regards to OTC derivatives transactions, on the need to temporarily exclude exchange traded derivatives from certain provisions of EMIR and on haircuts on non-centrally cleared SFTs.

Macroprudential supervision

The Commission delivered on a proposal as regards targeted amendments to the **ESRB Regulation**, backed up by an effect analysis, and currently being discussed in Council as part of the ESFS Review. In November 2016, the Commission put forward its proposal on CRD/CRR, among others clarifying Pillar 2 as a micro-prudential instrument. In the

Council, this proposal triggered a discussion on the need to introduce improvements to the macro-prudential toolkit to compensate for the reduced **flexibility in Pillar 2**, and to ensure that the macro-prudential toolbox remains flexible and comprehensive.

Over the course of 2017, the Commission issued two decisions under Article 458 of the CRR that supported stricter national capital measures related to the residential real estate (RRE) sector. The first concerned a Belgian measure that was scheduled to replace an earlier one, also taken under Article 458 of the CRR. The second related to a Finnish measure that is planned to come into effect in 2018. A third decision relates to a Cypriot measure consisting of a macroprudential liquidity buffer, supplementing the fully phased-in liquidity coverage requirements for credit institutions as of 1 January 2018.

General objective 3: A deeper and Fairer Economic and Monetary Union

As regards the objective to work towards "A deeper and Fairer Economic and Monetary Union", after the adoption of the EDIS proposal on 24 November 2015, the negotiations in the Council and European Parliament are still ongoing. Following the Council roadmap to complete the Banking Union of June 2016, the latest developments are the following:

- On 11 October 2017, the College adopted a Communication to the European Parliament, the Council, the European Central Bank, the European Economic and Social Committee and the Committee of the Regions on completing the Banking Union presenting a number of ideas to address concerns related to legacy risks and moral hazard with the view to unblock the negotiations.
- In parallel, following the publication of the European Parliament's draft report on EDIS on 4 November 2016, subordinating the start of the second phase of EDIS to a number of de-risking measures, the EP Rapporteur and the Shadow Rapporteurs have continued in their work.
- On 6 December 2017, the Commission adopted the EMU package proposed a European Monetary Fund (EMF), which integrates the European Stabilisation Mechanism into the Union framework. The EMF would also become the backstop provider to the Single Resolution.

Recovery and resolution

The legislative banking reform package on TLAC Implementation/MREL review adopted by the Commission on 24 November 2016 aims to complete Europe's post crisis resolution related reforms, which made the financial system more stable and resilient. Throughout 2017, the DG worked alongside the Maltese and Estonian Presidencies.

A key achievement under the Maltese Presidency was reaching a General Approach in Council in June 2017 on the **Bank Creditor Hierarchy Directive**, which creates a new class of senior non-preferred debt, instrumental in achieving a partial harmonisation for the market of subordinated instruments in the EU. This fast-tracked part of the Banking Package has been agreed in trilogues with the Parliament and the Council under the Estonian Presidency in October 2017 and published in the Official Journal in December 2017.

In 2017 DG FISMA prepared the first Commission decision on the resolution of a bank under the Single Resolution Mechanism, endorsing the decision by the Single Resolution Board on the failing Banco Popular Español, the then sixth largest banking group in Spain. The bank was able to reopen on the following business day with no disruption to

its services. No public funds were used to achieve this goal. DG FISMA also contributed to Commission decisions on other cases in the banking sector, such as Banca Popolare di Vicenza, Veneto Banca and Monte dei Paschi di Siena, which did not result in resolution decisions but also fell within the broader EU resolution framework. While the different circumstances of those cases have led to different solutions, in all of them financial stability was preserved, with the contribution of shareholders and subordinated debtholders, and the full protection of depositors.

By way of numerous crisis preparedness initiatives, both internally and with other EU institutions and authorities, DG FISMA contributed to the smooth functioning of the Single Resolution Mechanism, with good cooperation between EU institutions and authorities. DG FISMA also actively participated in those initiatives at international level, in order to enhance crisis management capabilities in respect of G-SIBs. A working Single Resolution Mechanism strengthens the Banking Union as a whole and reinforces the stability of the Economic and Monetary Union.

In order to further enhance the resilience of the EMU, DG FISMA also contributed to the Commission proposal for a common backstop to the Single Resolution Fund, to be provided by the future European Monetary Fund. As a last-resort financial safety net, the common backstop would provide further assurance that the Banking Union, irrespective of the contingencies, can finance bank resolution in a way that allows for an orderly outcome, as opposed to a sudden disruption, for the financial sector and the economy.

Monitoring and assessment of EU and Euro Area markets

As an ongoing activity DG FISMA carried out the **monitoring and assessment of EU/EA and international financial markets** and provided an ongoing assessment of the EU/EA financial system and subsectors, including its structure, performance, efficiency and stability. Building on that work, DG FISMA provided input to **policy analysis and development**, in case of significant systemic impact.

In particular the DG:

- Prepared **periodical market reports** (daily 'Financial Market Monitor' (in cooperation with unit B2), weekly 'Financial Market Pulse', 'Bond Markets Monthly'), and disseminated these assessments across the entire Commission. In this context, it also made various contributions to the DG ECFIN **economic forecasts** (Position paper, country-specific risk assessment, European Economy).
- Presented the **annual European Financial Stability and Integration Review (EFSIR)**, which provides an analysis of recent developments in financial markets and their impact on financial stability and integration. The DG regularly monitors these developments and analyses the underlying structural drivers in order to assess the effectiveness of existing policy actions and to gain insight into the need for future actions in view of emerging risks and opportunities. This year's report was presented on the occasion of the annual high-level conference on "European Financial Integration and Stability" organized jointly with the European Central Bank (ECB). Besides the presentation of EFSIR, the conference focused on the achievements and further completion of the Banking Union and the development of deeper capital markets as the main two topics for discussion.

- Worked very intensively on issues of **non-performing loans (NPLs)** in European banking, including participating in the Financial Services Committee (FSC) Working Group on non-performing loans, the preparation of the ECOFIN Action Plan, and its implementation (in particular legislation on secondary markets, AMC Blueprint, data harmonisation).
- Assessed and provided policy input on the situation and development in securities markets; in particular via an intense contribution to the ESRB work stream on **Sovereign bond-backed securities (SBBS)** and the preparation of an enabling Regulation on SBBS.
- Contributed to the **EU Surveillance** process in the context of the European Semester, by preparing the reports and the "Country-specific recommendation" on the euro area in the area of finance.
- Contributed to the preparation of the December **Commission package on "deepening EMU"**.
- Contributed to the **treasury management of Commission funds** by DG ECFIN;
- Led on the EU side the preparation of the examination of the EU financial sector by the International Monetary Fund, in the context of the **IMF "Financial Sector Assessment Programme (FSAP)"**.
- Contributed to the execution and review of the **financial sanctions by the EU on Russia**, through regular analysis of its effects on the Russian financial sector.

Monitoring of financial markets, institutions and policies at country level

With a view to contributing to financial stability, the DG continued its **monitoring of financial markets, institutions and policies at country level** in the context of the EU surveillance framework and in cooperation with other DGs. Under the **EU Semester procedure**, the Country Reports were published on 22 February 2017. Advice was formulated via Country-Specific Recommendations which the Commission adopted on 22 May and the Council endorsed on 11 July 2017. Under the Macroeconomic Imbalances Procedure several Member States were followed with the appropriate focus on the financial sector, depending on the risk they were classified in. With respect to the **Economic Adjustment Programmes**, the implementation of the Memorandum of Understanding with the one Member State (Greece), still receiving external assistance, was carefully checked on a regular basis in its financial sector dimension, for which the DG is responsible. The second review of the third Programme was published on 20 June and the third review was close to finalisation in December 2017. The post-programme surveillance of the Member States, which will last until 75% of the borrowed money is paid back, remained intense, as reflected in the regularly published reports to which the DG contributed the financial sector assessment (Romania: 23 May and 21 December; Cyprus: 7 July and 1 December; Portugal: 27 March and 6 October; Spain: 7 July and 1 December; Ireland: 7 July).

On 26 October 2017, the DG published the report: **"Coping with the international financial crisis at the national level in a European context"**, in which the Commission's surveillance of the national financial sectors and the crisis response was assessed in the context of the European Semester or the Economic Adjustment Programmes. Lessons from best practices were drawn to improve country surveillance in

order to preserve financial stability through timely action.

Other work carried out in 2017

DG FISMA monitored Member States' progress in the **transposition** of EU Directives closely and engaged with them, including via infringement proceedings where needed. The DG contributed to ECOFIN Council discussions by providing updates on the latest state of play. Timely implementation across the EU is important in order to ensure that the post crisis legislation can actually deliver.

As the parent DG of the three European Supervisory authorities, DG FISMA participated in their respective decision-making bodies and closely followed their substantive work, as well as planning and administration, including, where relevant, ensuring the necessary coordination with other services of the Commission.

During 2017, DG FISMA coordinated the Commission's work which was examining how to integrate sustainability considerations into its financial policy framework in order to **mobilise finance for sustainable growth**. In particular, DG FISMA provided the secretariat of the High Level Expert Group on Sustainable Finance, set up by the Commission, which began its work in early 2017.

Throughout the year, DG FISMA has **contributed to the work of international fora** in the field of financial services and markets regulation as well as to the work at G7 and G20 level. Moreover, the DG has maintained a number of bilateral relations and participated to regulatory dialogues with third countries in its field of competence. DG FISMA also contributes to the negotiation of free trade agreements, accession and neighbourhood policies to the extent that financial services are concerned.

DG FISMA prepared and published in February 2017 a staff working document on **equivalence**, which takes stock of existing provisions in EU financial services legislation that envisage that the Commission recognises third country regulation and supervision as equivalent. The staff working document furthermore discusses the process of applying these provisions and the experience with them to date.

Over the last year, we have been conducting an extensive equivalence assessment of third countries' rules applicable to trading venues under the Markets in Financial Instruments Directive and Regulation (jointly 'MiFID II'). The assessment was relevant for the application of the trading obligation for shares and derivatives under the new MiFID II framework and had to be completed before the application date of MiFID II on 3 January 2018. Following extensive exchanges with the competent authorities of third countries, National Competent Authorities and ESMA, all relevant decisions have been timely adopted by the end of the year. It included equivalence decisions for the US, Switzerland, Hong Kong and Australia. The adoption of these decisions ensured that there were no market disruptions for EU trading firms active in third countries following the application of MiFID II.

The Commission also continued its work on equivalence in the area of market infrastructure, with the adoption of an equivalence decision for risk mitigation requirements for the US (CFTC) and a further delegated act exempting certain central banks from EMIR requirements.

Contribution of Union spending programmes to DG FISMA policy objectives

In 2017 DG FISMA implemented two grants programmes both of which give rise to direct and tangible positive impacts for the achievement of DG policy objectives.

1. Union programme to support specific activities enhancing the involvement of consumers and other financial services end-users in Union Policy making in the field of financial services for the period of 2017-2020²

The purpose of this programme is to increase the involvement of consumers and other financial services end-users in Union and relevant multilateral policy-making in the area of financial services as well as to inform them of key issues facing the financial sector.

The programme is implemented by awarding grants to two beneficiaries (Better Finance and Finance Watch) identified in the legal basis. In general terms, the activities carried out by the two beneficiaries in 2017 included:

- publications of a number of research and policy papers on topics relevant to the Union's political agenda and priorities;
- activities to engage existing members and stakeholders (workshops, conference calls, public events, etc.), including in Member States;
- activities to increase and diversify membership – in particular to increase the coverage among Member States;
- organisation of high-level conferences, participation in hearings, facilitating good press coverage and social media activities, and conduct of financial education and training;
- regularly meeting policymakers and participating in expert or stakeholder groups with EU institutions and European Supervisory Authorities (ESAs) with the ultimate objective of positively influencing Union policy-making.

Better Finance continues to fulfil its remit as a specialised EU non-industry association with a primary focus on retail investments. Its annual report on the real returns of pension products is a respected source of information by industry, consumers and specialised media alike. In 2017, Better Finance launched a new product (checkyourfund.eu) which shall be continued due to interest generated. This website helps investors to identify potentially falsely active investment funds (known as closet indexers). In line with its priorities, Better Finance also kept stable its participation in expert groups run by the Commission or European Supervisory Authorities.

Finance Watch continued to develop a comprehensive expertise in financial services policy. It is gradually demonstrating a comparative advantage in the area of sustainable finance. In this context, Finance Watch is developing an index measuring the "greenness" of financial centres. 2017 marked the end of an internal transition for Finance Watch, culminating in what the beneficiary describes as "Finance Watch 2.0". Henceforth, Finance Watch's advocacy and outreach are guided by a Strategic Plan and the focus is on targeted meetings (quality vs. quantity), more proactive engagement, more educational activities and a new channel for campaigning geared towards the promotion

² Regulation (EU) 2017/826 of the European Parliament and of the Council of 17 May 2017. This programme succeeds to the preparatory action originating from the European Parliament called 'Capacity building of end-users and non-industry stakeholders in Union policy making in the area of financial services' that DG FISMA implemented in 2014 to 2016.

of sustainable finance. The latter activity was initiated through a conference in December 2017 called "Change Finance" and will involve a year-long campaign to build a coalition of civil society activists, campaigners, economists, sustainable finance/economy practitioners, citizens and journalists devoted to making the financial system work for citizens and for a sustainable development agenda.

2. Union programme to support specific activities in the field of financial reporting and auditing³

The programme involves co-financing of activities of three organisations operating in the field of financial reporting and auditing: the International Financial Reporting Standards Foundation (IFRS Foundation); the European Financial Reporting Advisory Group (EFRAG); the Public Interest Oversight Board (PIOB). The IFRS Foundation develops international accounting standards via its International Accounting Standards Board (IASB), while EFRAG ensures that the EU is speaking with one voice and the interests of the Union are adequately taken into consideration in that process. In addition, EFRAG provides the European Commission with endorsement advice on new or modified standards. The PIOB is responsible for monitoring the due process of the international standard setting process in the areas of audit and assurance, education, and ethics. The funding programme contributes to the reliability of financial reporting by companies. This in turn contributes to an optimal allocation of savings and a reduction of the cost of capital for companies in the EU and elsewhere.

Internal evaluations of the activities of the three beneficiaries (EFRAG, IFRS Foundation and the PIOB)⁴ confirm the relevance of the EU funding programme and strengthen the legitimacy of their position to serve the European public interest by developing and promoting European views in the field of financial reporting and auditing and ensuring these views are properly considered in the IASB and IFAC standard-setting processes.

Thanks to its extensive due process EFRAG was in a position to provide adequate assessment of whether draft, new or amended IFRS respond to the Union's needs while taking into account the diversity of accounting and economic models and views in the EU.

In 2017, EFRAG delivered its final endorsement advice on the IASB's Amendments to IFRS 4 *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*. It also delivered its final endorsement advice on IFRS 16 *Leases*. For the first time EFRAG's advice was underpinned by a macro-economic impact analysis. EFRAG also delivered its endorsement advice on the amendments to IFRS 9 *Prepayment Features with Negative Compensation*. Moreover, EFRAG has started its work on the endorsement advice on IFRS 17 of which a key part will be based on an impact analysis.

Additional information on the performance indicators related to such programme is provided in Annex 12 under specific objective 2.3.

³ Regulation (EU) No 258/2014 of the European Parliament and of the Council of 3 April 2014 as amended by the Regulation (EU) 2017/827 of the European Parliament and the Council of 17 May 2017.

⁴ COM(2017)684 final.

2. ORGANISATIONAL MANAGEMENT AND INTERNAL CONTROL

This section answers to the question *how* the achievements described in the previous section were delivered by the DG. This section is divided in two subsections.

The first subsection reports the control results and all other relevant information that support management's assurance on the achievement of the financial management and internal control objectives. It includes any additional information necessary to establish that the available evidence is reliable, complete and comprehensive; appropriately covering all activities, programmes and management modes relevant for the DG.

The second subsection deals with the other components of organisational management: human resources, better regulation principles, information management and external communication.

2.1 Financial management and internal control

Assurance is an objective examination of evidence for the purpose of providing an assessment of the effectiveness of risk management, control and governance processes.

This examination is carried out by management, who monitors the functioning of the internal control systems on a continuous basis, and by internal and external auditors. Its results are explicitly documented and reported to the Director-General. The reports produced are:

- the reports by AOSDs on the legality and regularity of the transactions implemented under their responsibility;
- the reports from Authorising Officers in other DGs managing budget appropriations in cross-delegation;
- the contribution of the Internal Control Coordinator (ICC), including the results of internal control monitoring at the DG level;
- the reports following *ex-post* checks by the financial unit on a sample of DG FISMA's financial transactions;
- the reports following on-the-spot checks at the premises of a sample of grants' beneficiaries;
- the limited conclusion of the internal auditor on the state of control, , and the observations and recommendations reported by the Internal Audit Service (IAS);
- the observations and the recommendations reported by the European Court of Auditors (ECA).

These reports result from a systematic analysis of the evidence available. This approach provides sufficient guarantees as to the completeness and reliability of the information reported and results in a complete coverage of the budget delegated to the Director-General of DG FISMA.

This section reports the control results and other relevant elements that support management's assurance. It is structured into (a) Control results, (b) Audit observations and recommendations, (c) Effectiveness of the internal control system, and resulting in (d) Conclusions as regards assurance.

2.1.1 Control results

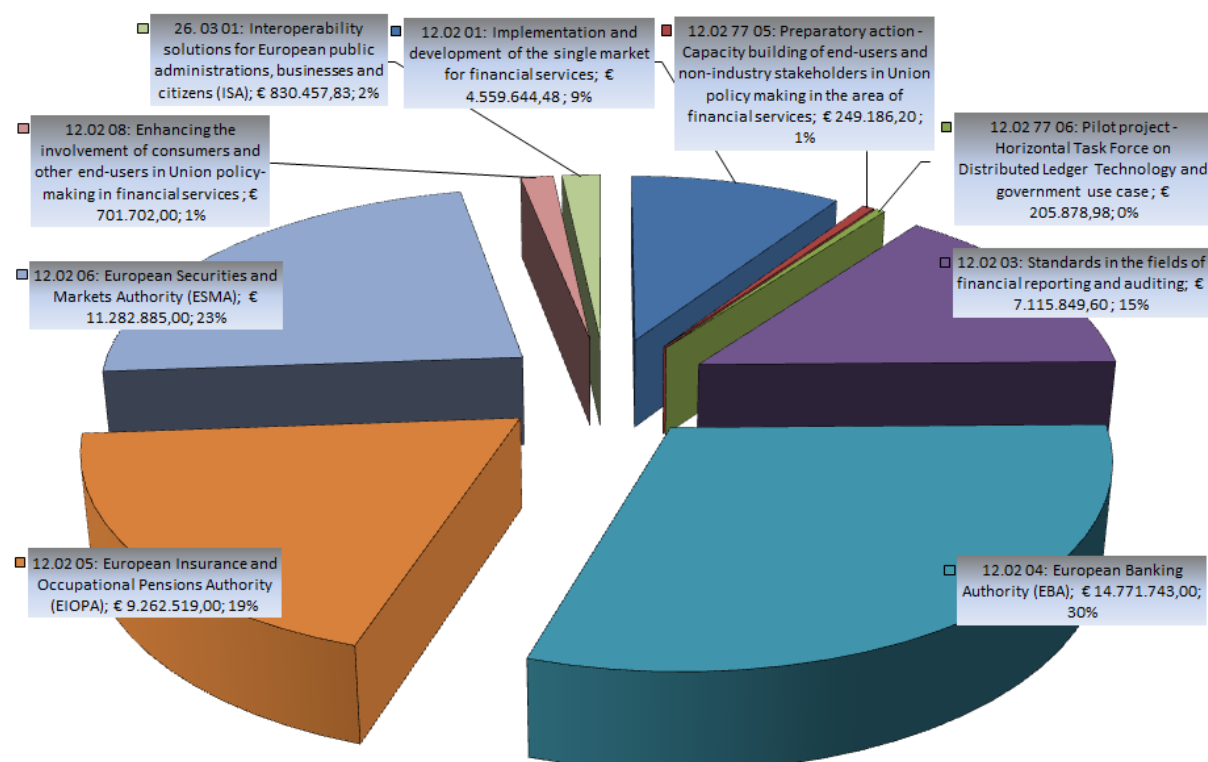
This section reports and assesses the elements identified by management that support the assurance on the achievement of the internal control objectives. The DG's assurance building and materiality criteria are outlined in the AAR Annex 4. Annex 5 outlines the main risks together with the control processes aimed to mitigate them and the indicators used to measure the performance of the control systems.

2.1.1.1 Type of expenditure managed by DG FISMA

A. Global payment coverage

DG FISMA total operational and administrative expenditure for 2017 was **€ 49 821 865⁵** of which almost the totality linked to its operational expenditure for 2017 (**€ 48 979 865**). Almost 72% of this operational expenditure (**€ 35 317 147**) was paid as a subsidy to the European Supervisory Authorities (ESAs). The remaining expenditure (**€ 13 662 718**) was used to procure studies/contracts and award operating/action grants within the framework of the activities and programmes managed by the DG.

OVERVIEW OF DG FISMA 2017 OPERATIONAL PAYMENTS



The table below provides a more detailed overview of the different risk types linked to DG FISMA main activities. It also lists the relevant control objectives being part of the assurance for each of the activities concerned.

⁵ For corporate reconciliation purposes the amounts indicated in table 2 of Annex 3 differ from such amount since: (1) they include all payments under FISMA credits appropriations even if executed by cross subdelegated or co-delegated DGs (FISMA/EMPL and FISMA:OP) and (2) they exclude payments actually executed by FISMA through cross-subdelegations received (DIGIT/FISMA).

ACTIVITIES/ RISK-TYPE	Activity 1 Implementation and development of the single market for financial services	Activity 2 Standards in the fields of financial reporting and auditing	Activity 3 Capacity building for end-users and other non- industry stakeholders in connection with Union policymaking in the area of financial services	Activity 4 European Supervisory Authorities (EBA, ESMA, EIOPA)	Total
Grants	-	€ 7 115 850	€ 701 702 (Union programme) + € 249 186 (Preparatory action)	-	€ 48 979 865
Procurement	€ 4 559 644	-	-	-	
Subsidies	-	-	-	€ 35 317 147	
ICO-related indicators available at this level?	Legality & Regularity: AER <2% Sound Financial Management: YES Anti-fraud Strategy: YES				
Independent info from auditors (IAS, ECA) on assurance or on new/overdue critical recommendations available?	NO	NO	NO	NO	NO
Reservations	NO	NO	NO	NO	NO

DG FISMA implemented the 2017 budget by direct management and indirect management.

B. Direct management expenditure

DG FISMA's controls on the execution of its own budget by direct management as described below by budget line (see internal control template (ICT) for direct procurement and grant management in Annex 5) revealed no events, control results or issues that could have a material impact on assurance as to the achievement of the internal control objectives.

1) Procurement

- **(Budget line 12.0201) Studies/service contracts.** DG FISMA procures or renews study/service contracts (including subscriptions to several diversified databases) for collecting information on the transposition status of EU legislation or market information and data across various markets in the EU. The outputs and data deriving from such activities are used by DG FISMA to assess the needs and define the content of new policy initiatives and to provide factual elements for impact assessments and evaluations.
- **(Budget line 12.027706) Pilot project - Horizontal Task Force on Distributed Ledger Technology (DLT).** This pilot project aims at setting up a task force staffed with regulatory and technical experts in order to build up technical expertise and regulatory capacity and develop use cases, especially for

governmental applications, in the field of Distributed Ledger Technology (DLT) as proposed in the European Parliament resolution on virtual currencies. The 2017 credits for this pilot project have been partly executed by DG FISMA (€ 350 000 commitments and € 205 878 payments appropriations used) and partly by DG CNECT (see below paragraph 3 on cross-subdelegations).

2) Grants

- **(Budget line 12.0203) Union programme to support specific activities in the field of financial reporting and auditing⁶**. DG FISMA's grant programme consists in awarding **operating grants** to three beneficiaries identified in the legal basis (*International Financial Reporting Standards (IFRS) Foundation*, the *European Financial Reporting Advisory Group (EFRAG)* and the *Public Interest Oversight Board (PIOB)*) which are involved in the development of standards in the field of financial services, financial reporting and auditing.
- **(Budget line 12.027705) Preparatory action 'Capacity building of end-users and other non-industry stakeholders in Union policy making in the area of financial services'**. Following a call for proposals, two **action grants** were awarded to Finance Watch and Better Finance in 2016 to give policy-makers a counterbalance to financial-sector lobbies and inform the wider public (consumers, end-users and retail investors) of the issues at stake in the regulation of financial markets.
- **(Budget line 12.0208) Union programme to support specific activities enhancing the involvement of consumers and other financial services end-users in Union Policy making in the field of financial services for the period of 2017-2020⁷**. The above preparatory action was replaced by a Union programme in 2017 for securing the continuation of the EU financial support to Finance Watch and Better Finance under the same conditions and so ensuring that their high level of expertise and the positive impact and added value of their activities were maintained for the 2017-2020 period. Since Finance Watch and Better Finance are now identified as beneficiaries in the legal base no call for proposals was launched by DG FISMA in 2017.

3) Cross-subdelegations (budget entrusted to/from other Commission services)

DG FISMA's controls on the cross-subdelegated credit appropriations were identical to those on the execution of its own budget (see internal control template (ICT) for direct procurement management in Annex 5). DG FISMA detected no events, control results or issues that could have a material impact on assurance.

- **Cross-subdelegations given:**
 - **(Budget line 12.0201)** DG FISMA subdelegated powers to DG EMPL for the purpose of developing AGM, an IT system for the management of experts' group meetings. DG FISMA considers the information reported by DG EMPL to be reliable and sufficient to conclude about the efficient and effective use of resources entrusted. No irregularity, audit finding or other issue was raised by DG EMPL while reporting the implementation of the

⁶ Regulation (EU) No 258/2014 of the European Parliament and of the Council of 3 April 2014 as amended by the Regulation (EU) 2017/827 of the European Parliament and the Council of 17 May 2017.

⁷ Regulation (EU) 2017/826 of the European Parliament and of the Council of 17 May 2017.

entrusted funds (€ 102 138 payments appropriations used). This cross-subdelegation will become a co-delegation type II as of 2018.

- **(Budget line 12.027706)** DG FISMA subdelegated powers to DG CNECT for implementing part of the *Pilot project - Horizontal Task Force on Distributed Ledger Technology (DLT)*. DG FISMA considers the information reported by DG CNECT to be reliable and sufficient to conclude about the efficient and effective use of resources entrusted. No irregularity, audit finding or other issue was raised by DG CNECT while reporting the implementation of the entrusted funds consisting in a global commitment of € 500 000.

– **Cross-subdelegations received:**

- **(Budget line 26.030100)**. DG DIGIT subdelegated powers to DG FISMA for implementing interoperability solutions for European public administrations, businesses and citizens (ISA). DG FISMA reported to DG DIGIT the commitment (€1 155 025) and payment appropriations (€830 458) used in 2017. The execution of credits under this budget line is linked to DG FISMA activities in the context of the standardisation of financial data reporting requirements.
- **(Budget line 01.020100)** DG ECFIN subdelegated powers to DG FISMA for financing the study "*Benchmarking National Loan Enforcement (Including Insolvency) Regimes from Bank Creditor Perspective*". DG FISMA did not execute commitments or payments in 2017 under this budget line.

4) Administrative expenditure

- **(Budget lines 12.010201 and 12.010211)** In addition to the above operational expenditure, DG FISMA also executed its administrative credits under direct management for conferences, technical assistance, missions, meetings and contributions to external experts for a total amount of **€ 842 000⁸**.

C. Indirect management expenditure

(Budget lines 12.0204, 12.0205 and 12.0206) Union contribution to European Supervisory Authorities (ESAs)

Since the three ESAs were established in 2011, their operating costs have been funded by the national supervisory authorities (60 %) and the EU (40 %). ESMA is also funded by operators (credit-rating agencies and trade repositories). Funding in 2017 was based on the budget approved by the budgetary authority at the end of 2016 to cover staff and administrative expenditure, and operational expenditure relating to the ESAs' 2017 work programme (see Annex 8 for information on subsidies paid).

The controls of DG FISMA on the payments to the ESAs and recoveries of ESAs' budgetary surplus (ICT for indirect management – stage 4) are similar to those performed during the execution of the DG's budget by direct management.

In order to ensure effective collaboration with the ESAs, DG FISMA established working arrangements with the three Authorities: a working arrangement on the ESAs' proposal to issue Guidelines (2013), a working arrangement on the process of the development of

⁸ Other administrative credits have been executed by the PMO (€ 1 485 982 under co-delegated budget lines FISMA:PMO) and DG HR (€ 2 470 under co-delegated lines FISMA>HR).

Technical Standards (2015) and a working arrangement on the coordination of international matters (2016).

While DG FISMA is accountable for the legality and regularity of the payments of the subsidies to the agencies, the accountability for the regularity and the legality linked to the use of such expenditure resides ultimately with the agencies themselves. The extent of DG FISMA controls over Agencies' operations does not therefore imply a financial review of the agencies' individual transactions. DG FISMA's supervision/monitoring arrangements are limited to the following:

- Unit 01 (Financial Services Policy and International Affairs) coordinates with the ESAs on horizontal operational, institutional and legal questions;
- Directorate A provides support for budgetary procedures;
- DG FISMA represents the Commission on the ESAs' management boards, usually through the director or head of unit in charge at operational level. It has a vote on budgetary issues only; and
- DG FISMA also represents the Commission on the ESAs' boards of supervisors. The DG's participation in such meetings at operational level is essential for its monitoring of the ESAs' work.

In the context of the participation of DG's representatives in the Management Board of the ESAs and DG FISMA regular working relations with them, no events or weaknesses of substantial nature were reported/detected that could affect the reputation of the DG, put into question the legality and regularity of ESAs' operations or raise concerns about fraudulent activities linked to their transactions.

Article 81 of the ESAs' founding regulations provides that an evaluation report covering the operations of the ESAs shall be published by 2 January 2014 and every three years thereafter. In 2014, the Commission adopted a review report on the European System of Financial Supervision covering the operations of the ESAs and the European Systemic Risk Board. With respect to the ESAs, the report concluded that the ESAs performed well overall in their first three years of operation. However, improvements could be considered in a number of areas, namely, funding arrangements, governance, tasks and powers, and the institutional structure of the ESAs. Building on the above reports and taking into account the results of public consultations launched in 2013, 2016 and 2017, the Commission therefore adopted in September 2017 a package of proposals to strengthen the European System of Financial Supervision (ESFS)⁹. The proposals aim to improve the mandates, governance and funding of the three ESAs and the functioning of the ESRB. This will ensure stronger and more integrated financial supervision across the EU. Concerning the revision of the current funding modalities they pursue a more diversified source of financing for the ESAs by replacing the contributions paid by national competent authorities with contributions paid by the industry and market participants. This also addresses the recommendations embedded in several Parliament resolutions in the context of 2015 discharge.

Within the limits of DG FISMA governance remit and based on the above supervisory/monitoring arrangements, we did not detect, nor we were made aware of, any fact that could prejudice the good working relations that have been established (see also section 2.1.2 on IAS audits) or the reliability of the key conclusions mentioned under point C) of the Executive summary.

⁹ (COM(2017)542final)

2.1.1.2 Coverage of the Internal Control Objectives and their related main indicators

A. Control effectiveness as regards legality and regularity

DG FISMA has set up internal control processes aimed to ensure the 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 concerned.

The control objective is to ensure that the value of DG's financial operations not complying with applicable contractual or regulatory provisions does not exceed the materiality criteria of 2 % established in Annex 4.

Given the volume, nature and low risk level of its transactions, DG FISMA does not have a comprehensive and systematic yearly *ex-post* audit strategy. For this reason and based on all relevant information available DG FISMA bases its assurance on an estimated error rate of 0,5% for all its transactions including subsidies, procurement and grants.

This estimated range of error has been judged appropriate considering the following quantitative and qualitative elements which have proven to be proportionate to the scale of transactions managed by the DG and sufficiently adequate to ensure a reliable and conservative estimation of the error rate:

– Internal *ex-post* desk checks

Ex-post desk checks on 70 operations (30 commitments and 40 payments) have been carried out by the Financial Resources and Internal Control Unit of DG FISMA. Operations were sampled according to the criteria specified in the *Guidelines for ex-post checks* of DG FISMA. The sampling is not supposed to lead to a "representative" error but to provide a reliable overview of the level of compliance towards the internal control process in place.

The checks revealed only minor procedural errors (i.e. documentation, use of checklists, encoding practices) which did not require any financial correction.

Since (for efficiency reasons and as mentioned above) DG FISMA does not have a permanent *ex-post* control function, these controls are deemed efficient and cost-effective in detecting possible fraud/errors and more generally preventing the erroneous processing of financial transactions in the established circuits.

– Analysis of exceptions and non-compliance events

DG FISMA recorded 9 exceptions and 4 non-compliance events in 2017. The events recorded were of low impact and significance and generated by specific circumstances or external factors beyond DG FISMA control (examples: reimbursement of travel expenses for additional experts, late validation of a mission orders, signature of commitments before the adoption of a financing decision, signature of operating grants beyond deadline). None of them led to the detection of a structural internal control weakness. Concerning the signature of commitments before the adoption of a financing decision the exceptions are justified by the necessity of ensuring a prompt execution of DG FISMA expenditure at the beginning of the year when this is necessary in order to timely achieve DG policy objectives to which such items of expenditure directly contribute.

The central register of exceptions and non-compliance events is systematically updated at central level and exceptions and non-compliance events are reported to

the Commissioner twice a year in the context of the overall reporting on the state of internal control.

– **On-the-spot checks**

DG FISMA carries out on-the-spot checks on grant beneficiaries once every two years. The decision to adopt a biannual frequency of on-the-spot controls is due to the low risk inherent to the type of grants managed by the DG and also justified by reasons of cost-effectiveness and proportionality. The results of 2017 on-the-spot checks on two grants' beneficiaries confirmed previous trends and highlighted beneficiaries' awareness of rules and procedures.

The error rate detected during the on-the-spot checks was in fact not material (<0,1%) and lower than previous error rate of 0,2% detected during the on-the-spot check carried out in 2015. In addition, while marginally reducing the eligible costs declared by the beneficiaries, the above error rate had no impact on the EU contribution and did not lead to any recovery of undue amounts.

The beneficiaries also implemented to a sufficient extent all previous recommendations made by DG FISMA following the on-the-spot checks carried out in 2015.

– **Standard control and reporting activities**

In order to ensure a comprehensive annual activity reporting on the effectiveness and efficiency of controls, DG FISMA has recorded errors detected *ex-ante*, calls for tenders cancelled, complaints filed, cases of exclusion from procurement procedures and grants award, liquidated damages applied or contracts terminated. DG FISMA assesses this information regularly as part of its on-going financial and internal control of management operations, when reporting to the Commissioner on the overall state of internal control in the DG and later in the context of the AAR preparation.

With the exception of errors linked to non-compliance events mentioned in the above paragraphs, 22 transactions 'refused for correction' and one call for tenders cancelled, DG FISMA did not record any of the above events. The refusal of 22 transactions for correction is mainly due to administrative encoding errors and does not entail any structural risk related to the legality and regularity of the transactions. The reason why a call for tender was cancelled is due to the reception of only one offer which did not comply with the minimum quality standards expected.

The existence and results of the above controls demonstrate that the DG's control strategy and the financial processes governing its transactions are working effectively and that no internal control weakness affects DG's operations. It is therefore concluded that the control objective has been achieved and that the controls in place are proportionate compared to the inherent risks of DG's transactions and adequate to ensure the legality and regularity of its transactions.

In the context of the protection of the EU budget, at the Commission's corporate level, the DGs' estimated overall amounts at risk and their estimated future corrections are consolidated.

For DG FISMA, the estimated overall amount at risk at payment for the 2017 expenditure is 0,2 M€. This is the AOD's best, conservative estimation of the amount of *relevant expenditure* during the year (44,7 M€) not in conformity with the applicable contractual and regulatory provisions at the time the payment is made.

This expenditure will be subsequently subject to *ex-post* controls and a sizeable proportion of the underlying error will be detected and corrected in successive years. The conservatively estimated future corrections for the 2017 expenditure are 0,09 M€. This is the amount of errors that the DG conservatively estimates to identify and correct from controls that it will implement in successive years.

The difference between those two amounts leads to the estimated overall amount at risk at closure of 0,1 M€.

DG FISMA - Estimated overall amount at risk at closure

DG FISMA	Payments made (2017; €)	New prefinancing (2017; €)	Cleared prefinancing (2017; €)	Relevant expenditure (2017; €)	Average Error Rate (weighted AER; %)	Estimated overall amount at risk at payment (2017; €)	Average Recoveries and Corrections (%)	Estimated future corrections (and deductions) (2017; €)	Estimated overall amount at risk at closure (€)
<i>(1)</i>	<i>(2)</i>	<i>(3)</i>	<i>(4)</i>	<i>(5)</i>	<i>(6)</i>	<i>(7)</i>	<i>(8)</i>	<i>(9)</i>	<i>(10)</i>
Programme, Budget Line(s), or other relevant level	As per AAR annex 3, table 2	As per prefinancing report	As per prefinancing report	= (2) - (3) + (4)		= (5) x (6)	Based on 7 years average recoveries and corrections	= (5)x(8)	= (7) - (9)
Financial Stability, Financial Services and Capital Markets Union	€ 49 093 545	€ 39 736 859	€ 35 347 226	€ 44 703 912	0,5%	€ 223 520	0,2%	€ 89 408	€ 134 112

B. Cost-effectiveness and efficiency

Based on an assessment of the most relevant key indicators and control results, DG FISMA has assessed the cost-effectiveness and the efficiency of the control system and reached a positive conclusion.

B.1. Cost-effectiveness

DG FISMA has estimated the costs of its main control processes (procurement and grant direct management, management of financial transactions, *ex-post* supervisory measures and indirect management of the ESAs) for assessing their efficiency and cost-effectiveness. To measure the cost-effectiveness of its controls, DG FISMA analyses all relevant internal control template (ICT) and related indicators over time (see in Annex 5) by type of expenditure and control stages. Contrary to previous years, the estimation of the costs is now assessed by DG FISMA separately for operations in direct or indirect management.

DG FISMA uses a fully centralised financial circuit to process its financial transactions and has produced estimates of the costs of the main control processes (corresponding to a step by step full time equivalent staff estimated workload) validated internally by sampled services in the DG involved in different type of expenditure and stages of the control processes. The methodology used to calculate the different indicators reported below and in Annex 10 is recorded at central level to allow an easy reproduction of the data and comparability over time. The intensity of controls is adapted to the risks of the transactions (e.g. a second verification is requested in case of high value transactions) so to allow the necessary flexibility and avoid unnecessary controls.

To assess cost-efficiency and cost-effectiveness indicators over time, the estimated costs of controls on the main processes have been compared with data from the previous years (see Annex 10 "Cost-effectiveness indicators" for more details on the evolution of the indicators over the last three years).

Such assessment on the evolution of indicators over time is not available for some procurement indicators whose calculation method was changed by DG FISMA in the context of this report¹⁰. As a result the estimated costs are now measured against a lower overall expenditure constituting a representative sample of procurement operations¹¹. Such revision of methodology leads to the increase of the indicators listed in Annex 10 compared to previous years. This is however due to a revised calculation method and not to an actual increase of costs of controls which remain stable compared to previous years as demonstrated by the average costs by stage described below¹².

¹⁰ The overall costs of control reported in previous years included other types of expenditure, including indirect management operations, because following the same financial circuits.

¹¹ Additional details on the methodology used to calculate the costs under each stage are provided in Annex 10.

¹² The slight increase in average costs from 2016 to 2017 is due to the revision of the average personnel costs against which the costs of FTEs are estimated at Commission level.

B.1.1. OVERALL INDICATOR ON COST-EFFECTIVENESS

The overall costs of controls related to operational expenditure correspond to 2% of the payments made. In previous years the overall indicator on cost-effectiveness was measured against all DG expenditure (including also administrative payments which are subject to different, lighter and very diversified controls depending on the type of transaction). The lowest results reported in the table below do not therefore entail an actual reduction of costs (which remain stable at around 3% if applying the same calculation method as last years) but reflect a more appropriate overall picture of the costs of control made on a representative set of payments where DG controls are actually focused¹³.

Description	Year 2015	Year 2016	Year 2017
Total costs of controls / value of payments made	4%	3%	2% (of which 5% in direct management and 0,8% in indirect management)

B.1.2. DIRECT MANAGEMENT

The costs related to expenditure executed by DG FISMA in direct management are calculated below separately for procurement and grants. They represent overall 5% of the expenditure made in such management mode. The percentage is higher than previous year (3% in 2016 and 4% in 2017) since the amounts spent in indirect management are now calculated separately and not under a global indicator covering all DG FISMA expenditure. As mentioned previously this is not linked to an increase of cost of controls but to a revision on how DG FISMA will monitor its costs of controls as from 2017.

– Procurement

The cost of controls for planning new procurement procedures is stable at around € 4 100 per call for tender. Controls in the planning phase remain cost-effective since they are a valuable preventive measure to avoid procuring existing data or results that could have been obtained otherwise within the institution and to ensure an efficient implementation of policy objectives by avoiding discontinuation of services. Such assessment is made in the context of the preparation of N+1 budget and updated in light of changing priorities. It allows the DG to effectively ensure that the expenditure under procurement is aligned to its real operational needs. It includes for example a careful prioritisation of planned studies which are validated at senior management level following an in depth analysis of policy needs and upcoming priorities.

The estimated average cost of a procurement procedure in respect of the assessment of needs and their definition is around € 11 600 and follows the same stable trend as in previous years. The cost-effectiveness of such controls is demonstrated by the fact that, on average, 2,5 offers are still received for each procurement procedure and

¹³ For the cost calculation of its overall indicator DG FISMA did not use as denominator the amount of total payments mentioned in table 2 of Annex 3 but the amount of the actual operational expenditure implemented directly by the DG based on cross-sub delegations given and received and co-delegations. For more detailed information on the calculation method used refer to Annex 10.

that only 1 request for clarifications is submitted by the tenderers in average. This has ensured competition among bids that can be reasonably compared and avoided litigations with unsuccessful tenderers.

The average costs of controls on the selection, evaluation and award of offers following procurement procedures were estimated at around €12 400 per tendering procedure. These controls were cost-effective, since savings were made in respect of the most economically advantageous offers received. In addition, they secured the regularity and legality of the operations and prevented conflicts of interests, complaints and the risk of litigations or fraud which would have entailed substantially higher costs.

Overall, the costs related to the above stages of the procurement process correspond to 3,7% of the value finally contracted. They are therefore adequately commensurate to the gains considering the qualitative added value they entail by ensuring a targeted definition of needs, adequate formulation of tender specifications and transparent selection and awarding process compliant with applicable rules and corporate guidance.

The costs related to the acceptance of deliverables and processing of all payments and recovery orders are estimated to be 7,2% of the overall payments made on procurement.

Costs related to supervisory measures are not substantial corresponding to 0,04% of the overall amounts under the relevant procurement transactions checked (21 payments and 16 commitments).

The overall costs of controls for procurement described in detail above correspond to 11,5% of the payments made. Due to the diseconomy of scale inherent to DG procurement transactions (low amounts still requiring minimum checks and controls) the costs of controls at the different stages of the procurement process could hardly be further reduced without weakening the quality of DG operations. Therefore, considering the important role of procurement in several sensitive fields of policy activity, DG FISMA does not envisage to reduce quality controls given this context.

– **Grants**

As a global indicator, the ratio between the overall costs of controls and the total grant expenditure was 0,6% which confirms the positive results of previous years. The above costs of controls include all stages of the grant's process: assessment of the applications submitted by the beneficiaries identified in the legal base, preparation of the work programme through a financing decision, commitment and implementation of financial operations such as payments, de-commitments and recovery orders. The slight increase compared to previous years is due to the execution of on-the-spot checks.

Since no calls for proposals were launched in 2017 by DG FISMA, the control stages and related costs linked to the preparation of the call for proposals, the selection and award of the grants are not applicable anymore and have been revised accordingly (see Annex 5 on ICTs). Such costs were previously calculated based on the indicators of the previous preparatory action for which a call for proposals was required. However, controls are still performed by DG FISMA before the contracting phase. The costs of such controls, namely related to the preparation of the work programme and assessment of the legality and regularity of grants' application are very low and estimated to be 0,2% of the value of action and operating grants finally committed.

The costs of controls for contracting and monitoring grants over the payments made remained stable at around 0,2% and in line with previous years.

The proportion of costs related to the two on-the-spot checks organised in 2017 by DG FISMA are estimated to be around € 10 000 including mission costs and continue to be not substantial in relation to the value of the amounts checked (around 0,1%). The costs of *ex-post* checks in grants represent an even tinier fraction of the amounts checked.

– **Supervisory measures in general**

As mentioned in previous paragraphs for procurement and grants the costs of *ex-post* desk review under direct management are unsubstantial and in overall terms correspond to less than 0,01% of the transactions checked.

The costs of on-the-spot checks in grants are higher but overall the costs of DG FISMA supervisory measures have no substantial influence on the overall cost-effectiveness of its controls both in relative and absolute terms. However, in view of further limiting the costs of its controls DG FISMA plans to modify its control strategy by limiting the frequency of on-the-spot checks. During last round of on-the-spot checks in fact no substantial errors were detected having an impact on the EU contribution received by the beneficiaries. As a consequence, the grounds for maintaining such systematic frequency of control are no more justified especially in view of the nature of such grants which are awarded to beneficiaries identified in the legal base and which have already developed sufficient quality standards throughout the previous years of implementation of the actions. The constant contacts between DG FISMA and its beneficiaries also allow a sufficient level of control without the need of on-the-spot checks every two years.

B.1.3. INDIRECT MANAGEMENT

The costs of 'representation' control on ESAs have been estimated to 0,4% of the annual subsidies paid to them (they include for example but not exclusively the costs related to the participation of DG FISMA's representatives in management Boards, Boards of Supervisors and related preparatory work).

The costs of control strictly related to the processing of the payments made to the Agencies are calculated separately and based on a similar methodology used to calculate the costs related to other financial transactions. They represent a tiny fraction of the payments made (0,03%).

Compared to previous years DG FISMA has also estimated the costs related to the ESAs review carried out in 2017 and aiming at setting up new mandates, governance and funding modalities for the ESAs. Such costs represented 0,4% of the total subsidies paid to the ESAs (see stage 1 of the internal control template for indirect management in Annex 5).

Considering all the above, the overall costs of control for indirect management represented 0,8% of the subsidies paid to the agencies in 2017. The increase compared to previous years is related to the huge collective effort in defining the new legal framework of the Agencies which was not required in 2016. It is also related to the fact that in 2017 DG FISMA made a separate assessment of the costs related to all financial transactions in indirect management which were previously considered under the global costs of the DG.

B.2 Efficiency

The average time to make a payment in DG FISMA was 16,2 days (gross time including suspensions while average net payment time was 13,5 days) and remains in line with 2016 (16,5), 2015 (17,1 days) and 2014 (19,5 days) and within the maximum time-limit of 30 days. The above results are also supported by a more performing indicator such as the time to pay prefinancing in grants which was only 7,7 days on average.

Only 1 payment was processed late corresponding to 0,37% of the total payments made. This equals the performance of last year and confirms a substantial improvement compared to 2015 (10%) and 2014 (5%). It also demonstrates that the timed efficiency of DG operations is guaranteed by current procedural arrangements and internal organisation modalities. In addition, the timed execution of payments limits substantially the risk of complaints from contractors and beneficiaries which can in fact perform their tasks without facing financing delays and ensure quality policy outputs to DG FISMA.

Concerning indirect management the average time to pay the subsidies to ESAs was 15 days which remains below maximum time limits and confirms the efficient handling of such process by DG FISMA.

Since all beneficiaries of the grants' programmes managed by DG FISMA are now identified in the legal basis, DG FISMA has no elements for reporting on time-to-inform or time-to-grant as required under Article 128.2 of the Financial Regulation in case of grants awarded through calls for proposals.

B.3. Overall conclusion

Based on the above set of indicators, DG FISMA's controls on the management of budget appropriations in 2017 are considered to be cost-efficient and effective. The increase of the relative costs of controls under certain procedural stages is only due to the revision of the calculation method (more conservative) and does not correspond to an increase in average costs.

There is insufficient data to quantify the preventive benefits of controls in monetary terms. However, DG FISMA has at its disposal several elements demonstrating the non-quantifiable benefits of its controls, as for example:

- Better value for money, deterrence, efficiency gains and regulatory compliance.
- The number of financial transactions 'refused for correction' (22) which remains low but at the same time demonstrates the effectiveness of the checks performed by the verifying function and the corrective capabilities embedded in DG FISMA financial circuits.
- The lack of complaints or litigation cases filed in respect of procurement and grant procedures.
- The lack of fraud cases in both procurement and grants.
- The absence of ineligible costs detected during the on-the-spot checks on grants that had an impact on the EU contribution paid which demonstrates the improvement of beneficiaries' standards of quality.
- The errors detected during the *ex-post* checks that despite not having a budgetary impact they allowed DG FISMA to detect administrative encoding errors and therefore improve the quality and consistency of data and related reporting.
- The very low number of requests for clarification in the context of procurement procedures (average of 1 clarification requested).
- The few number of procedure where only one offer was received (3) and the low number of procurement procedures cancelled (1).
- The extent clarifications obtained in the context of grants applications allowing a qualitative improvement of the work to be performed by the beneficiaries under the grants awarded (clarifications provided in two action grants).
- The number of financing decision receiving a negative opinion during the inter-service consultation or a positive opinion with substantial comments (0 negative).

C. Fraud prevention and detection

DG FISMA has developed and implemented its own anti-fraud strategy since 2013, elaborated on the basis of the methodology provided by OLAF.

DG FISMA revised its anti-fraud strategy in July 2017 in line with the new "Methodology and guidance for DGs' anti-fraud strategies" adopted by OLAF in February 2016. The new anti-fraud strategy is focused on DG FISMA specific needs and aims at further reducing the major risks linked to its activities. The new strategy was prepared in strict collaboration with DG operational services concerned and with an active involvement of the management at all stages of the process.

DG FISMA's risks are mainly reputational and related to regulatory capture and possible leaks of sensitive information to external stakeholders or any other third party during the preparatory legislative process and/or international negotiations. DG FISMA has a 'zero tolerance' policy on the protection of sensitive information and transparent relations with stakeholders and continuously aims at strengthening its control environment with targeted actions pursuing such goal.

The new strategy is therefore oriented to the achievement of the following main objectives:

- Ensure adequate protection of sensitive information (by monitor all meetings held with interest representatives, record their outcome and detect any anomaly).
- Ensure transparent relation with interest representatives (by track/map sensitive information processed within the DG and regularly raise staff awareness on concrete measure for handling and storing this type information).

DG FISMA launched several initiatives in 2017 such as the organisation of an all-staff meeting on antifraud, revision of ethics guidelines to include antifraud targeted rules, signature of declarations on absence of conflict of interest to colleagues involved in bank resolution, regular distribution of antifraud bulletins to staff and antifraud survey. All these initiatives were widely publicised among staff and actively supported by senior management. The results of the survey on the new antifraud strategy launched in December 2017 demonstrated a high level of awareness among all staff having participated. This proves the effectiveness of the efforts made by DG FISMA and its management in 2017 to familiarise staff on the fight against fraud.

Considering the extent and nature of DG FISMA's expenditure, the exposure to fraud entailing financial risks is low. Nevertheless, DG FISMA consistently applies appropriate control measures to its transactions to detect any fraudulent activities. For example, procedures or transactions in procurement and grants which are considered as entailing greater risks are verified at two levels before being approved by the authorising officer. This second verification is carried out by staff who is familiar with fraud prevention and detection. In addition, a second *ex-ante* verification is automatically performed for transactions involving an amount higher than € 60 000. Information on anti-fraud is also given during newcomers' training to build at the earliest stage staff consciousness on such sensitive matters.

DG FISMA did not detect any fraud case to OLAF as a result of the above verifications nor did OLAF open any cases in respect of DG FISMA's activities, beneficiaries or contractors. The only case reported to OLAF and the security services of DG HR concerned the misappropriation of the Commission's logo and name in circumstances unrelated to DG activities or programmes. In that case the DG reacted very promptly in reporting the case to the competent Commission services demonstrating the functioning and effectiveness of the internal flow of information at all hierarchical levels.

The antifraud action plan has been implemented by our DG in 2017 and the execution of the actions planned is monitored centrally in close collaboration with the services concerned.

2.1.2 Audit observations and recommendations

This section reports and assesses the observations, opinions and conclusions reported by auditors in their reports which could have a material impact on the achievement of the internal control objectives and therefore on assurance. It also reports the result of the limited conclusion of the Internal Audit Service (IAS) on the state of control and the management measures taken in response to the audit recommendations.

DG FISMA monitors implementation of all accepted audit recommendations centrally by:

- notifying the units responsible for implementation in due time, to ensure that agreed deadlines are met.
- recording the action taken using dedicated IT tools in order to report to the auditors and to management.

All DG FISMA services concerned by the audit were involved during the entire audit process in order to ensure a complete and correct flow of information. Management was also systematically involved at appropriate level depending on the stages of the audit.

A. European Court of Auditors audits

For the 2016 Statement of Assurance (DAS) the ECA sampled three transactions of DG FISMA:

- Service contract for carrying out a "Study on the impact of the capital requirements regulation on the access to finance for business and long-term investments". The review was completed in October 2016 without any findings or remarks from the ECA.
- 2015 Union contribution to the European Banking Authority. The review was completed in February 2017 without any findings or remarks from the ECA.
- Administrative expenditure for DG's teambuilding event. The review was concluded in May 2017 and included an observation common to several institutions and bodies which has been processed at corporate level.

During 2017 DG FISMA contributed to Commission's replies to be published in the following ECA reports:

- Special report n° 17/2017 on the Commission's intervention in the Greek financial crisis (published on 16/11/2017).
- Special report n° 3/2018 'Audit of the Macroeconomic Imbalance Procedure -MIP-' (published on 23/01/2018).
- Report pursuant to Article 92(4) of Regulation (EU) n° 806/2014 on any contingent liabilities for the financial year 2016 (published on 21/12/2017).

At the end of 2017, there were no open ECA recommendations to be implemented by DG FISMA.

B. Internal Audit Service audits and conclusion on the state of control

The IAS performed the following audits in DG FISMA in 2017 and none led to 'very important' or 'critical' recommendations:

- Audit on financial management of procurement and grants.
- Audit on the production process and the quality of statistics not produced by Eurostat.

In relation to the **audit on financial management of procurement and grants** the IAS confirmed in its report that the internal control system in place in the DG provides

reasonable assurance regarding the achievements of the business objectives set up for the processes audited and that DG FISMA has put in place strong controls for the entire financial management cycle ensuring sound financial management of operations. The IAS 'important' recommendation was limited to a peculiar set of circumstances facts and did not reveal systems errors or weaknesses. An action plan addressing such recommendation has been already proposed by DG FISMA and accepted by the IAS.

In relation to the ***audit on the production process and the quality of statistics not produced by Eurostat*** the IAS issued four 'important' recommendations to DG FISMA which are strongly linked to another set of recommendations issued at corporate level. DG FISMA accepted all recommendations with a remark linked to proportionality considerations and has already proposed an action plan aimed at addressing them by end of 2018 in collaboration with Eurostat and other central services concerned.

In 2017 the IAS also performed a 3rd follow-up audit on the IAS audit on HR management in DG FISMA in response to the financial crisis covering:

- A 'very important' recommendation on monitoring and reporting on HR management.
- An 'important' recommendation on HR management.

Based on the results of the follow-up, the remaining pending recommendations were considered by the IAS as implemented considering the development by DG FISMA of a long-term HR strategy covering the period 2017-2020.

At the end of 2017, DG FISMA had therefore no open IAS recommendations.

During the last quarter of 2017 DG FISMA also constructively discussed with the IAS the audit action plan for 2018-2019 in light of the actual risks and workload of the DG.

Based on all work undertaken by the IAS in the period 2015-2017¹⁴, namely,

- Consulting engagement on DG FISMA processes for setting objectives and performance indicators (2015).
- Audit on financial management of procurement and grants in DG FISMA (2017)
- Audit on the production process and the quality of statistics not produced by Eurostat (2017).

and taking into account that:

- management has adopted action plans to implement recommendations made by the IAS in 2015-2017 and accepted by management and which the IAS considers adequate to address the residual risks identified by the auditors,
- the implementation of these plans is monitored through reports by management and follow-up audits by the IAS, and
- management has not rejected any 'critical' and/or 'very important' recommendations.

The **IAS concluded** that the internal control systems audited are effective.

C. Recommendations linked to discharge

DG FISMA also addressed the recommendations issued by the European Parliament in relation to 2014 and 2015 discharge and which are linked to the need of a more

¹⁴ Final audit reports issued in the period 01/02/2015 – 31/01/2018.

diversified financing for the European Supervisory Authorities by adopting in September 2017 a package of proposals (COM(2017)542final) to improve the mandate, governance and funding of the European Supervisory Authorities (ESAs). The new measures also include the revision of the current financing modalities proposing a more diversified source of funding for the ESAs by replacing the contributions paid by national competent authorities with contributions paid by the industry and market participants.

D. Recommendations linked to the validation of local financial systems

The 2016 recommendations of DG BUDG linked to the validation of local financial systems are not yet formally closed and their implementation status at the end of 2017 was the following:

- Formalization of the annual risk analysis: partially implemented.
- Data quality and completeness in ABAC contracts and Legal Commitments: partially implemented.
- Documentation of the process for the funding of ESAs: fully implemented but not yet communicated to DG BUDG.

Any required additional follow up related to such recommendations will be done by DG FISMA in 2018.

Overall, DG FISMA's audit record is positive. In the last five years, the audit bodies (IAS and ECA) issued no critical recommendations. Considering the absence of any open or overdue recommendations and the level of importance of the new recommendations resulting from the two IAS audits performed in 2017, DG FISMA management believes that there are no elements raising assurance implications.

2.1.3 Assessment of the effectiveness of the internal control systems

The Commission has adopted a set of internal control standards, based on international good practice, aimed to ensure the achievement of policy and operational objectives. In addition, as regards financial management, compliance with these standards is a compulsory requirement.

DG FISMA has put in place the organisational structure and the internal control systems (ICSs) suited to the achievement of the policy and control objectives, in accordance with the standards and having due regard to the risks associated with the environment in which it operates.

A. New internal control framework

A new internal control framework was adopted by the Commission mid-2017 and will be in force as from 2018¹⁵. For 2017 DG FISMA decided to report on previous control standards to ensure continuity and avoid unnecessary and disproportionate burden for the services which would have had to report on indicators set up at the end of the period they are supposed to refer and based on principles adopted in the course of yearly operations.

However, DG FISMA initiated several steps as from mid-2017 to prepare the grounds of the new internal control framework by taking the following concrete measures:

1. Establishment of the internal control monitoring criteria to measure presence and functioning of each component and principle

- DG FISMA first assessed at the level of the internal control coordinator team the possible indicators against which the presence and functioning of each new principle should be measured. This was performed by taking in due consideration the indicators already used in the past to ensure an adequate level of continuity but also assessing the necessity of new indicators based on new risks or whenever required by the new principles. The costs inherent to the measurement of the new indicators were also analysed by highlighting the cases where new controls were necessary or additional efforts required for keeping evidence. In addition and whenever possible and needed, a reasonable balance between type of indicators (% , Y/N, surveys, etc.) was sought.
- As a second step each service involved in the implementation of each new principle was consulted to verify the relevance, measurability and proportionality of the indicators selected by the internal control coordinator team. The services provided concrete inputs to strengthen the overall set of indicators so that they actually reflect the needs and activities of the DG without imposing disproportionate bureaucratic burden for their monitoring.
- The list of indicators by principle was finalised and submitted for validation to senior management.

2. Nominate the Director in charge of Risk Management and Internal Control (RMIC)

- The RMIC will be responsible for reporting as from 2018 on the Part 2 of the Annual Activity Report related to 'Organisational management and internal control'

¹⁵ C(2017) 2373 final

- In order to reflect the actual repartition of responsibilities within the DG, its organisational structure and reporting lines, the Deputy-Director General was nominated responsible for the reporting on the Part 1 'Key results and progress towards the general and specific objectives of the DG'.

B. Assessment of ICS effectiveness

DG FISMA concluded that there were no major deficiencies or combination of deficiencies in the components of its internal control system which would put into question their presence, undermine their effective functioning or prevent the achievement of DG objectives. DG FISMA reached this conclusion based on a set of several sources:

- **ICS compliance and effectiveness screening.** DG FISMA assesses yearly the compliance of its internal control system with each ICS's requirement. This is done through a detailed desk review complemented by direct contributions from the responsible units. The results of the exercise provided useful indicators to demonstrate the compliance of DG FISMA with all ICSs. It also highlighted useful elements supporting the effectiveness of its control system. The contributions received from the units also confirmed the concrete measures taken by DG FISMA in order to ensure that its internal control system continued to be compliant and effective in a changing environment. While carrying out the assessment DG FISMA took into consideration the factual elements used in previous year's assessments as well as some new indicators established in 2017 in the context of the preparation of the new internal control framework (on which DG FISMA will however fully report in 2018 AAR). As from 2016 no ICS is prioritised in the context of the Management Plan of the DGs so that the effectiveness of the internal control system has been globally assessed in light of the qualitative and quantitative elements under each standard.
- **Exceptions and non-compliance events.** DG FISMA has a well-functioning system for reporting operations deviating from established ICSs. The nature and extent of the exceptions and non-compliance events have been systematically recorded in the DG register and assessed in order to verify their structural nature and recurrence and to determine the existence of gaps in the effectiveness of the ICSs. None of the exceptions or non-compliance events reported constituted an internal control weakness or put into question the functioning or effectiveness of the ICSs. The most recurrent exception is linked to the signature of commitments without the adoption of the financing decision and it is justified by imperative needs requiring the payment of grants and/or the launching of a procurement procedure on time to allow timely achievement of policy objectives. Such risk will disappear as from 2019 for the commitments related to the ESAs since based on the new financial regulation to be adopted in 2018 no financing decisions are required for subsidies paid to decentralised agencies.
- **Risk assessment.** In 2017 DG FISMA performed a yearly risk assessment by requesting contributions to all units. The review highlighted the same type of risks as in previous years which are mainly linked to DG's operational activities. The involvement of all DG FISMA colleagues in the process also allowed a more concrete and detailed overview of the risks which were finally discussed and validated by senior management. A separated anti-fraud risk assessment was also performed which led to the downgrading of several risks considered obsolete because of their reduced level of likelihood following previous mitigating measures taken. None of the risks identified was critical or putting into question the functioning or effectiveness of the ICSs. DG FISMA also carried out a specific risk assessment on its accounting processes which also did not detect any substantial weakness impacting DG assurance in such context.
- **Reports to Commissioner.** The DG regularly reports to its Commissioner during the year to inform about the state of play of internal control. In such context the actual status of all elements related to internal control are reviewed.

- **IAS/ECA's audit results and recommendations.** As mentioned in section 2.1.2, in the last five years, the audit bodies (IAS or ECA) issued no critical recommendations. DG FISMA has fully implemented all recommendations as of 31/12/2017. The new recommendations linked to the audits carried out by the IAS in 2017 and finalised in 2018 are currently being implemented and do not trigger any 'very important' or 'critical' risk.
- **Fraud and ethics.** In the course of 2017 DG FISMA demonstrated to be reactive and efficient in detecting and taking immediate measures while facing situations triggering potential concerns in relation to fraud or unethical behaviour. No event was reported in 2017 which was not efficiently addressed. In addition, the recent campaign of the DG against leaks and for transparent relations with stakeholders provide assurance about the overall functioning of this key internal control element which enables the DG to operate in an ethical environment with an increasing antifraud culture and awareness.

DG FISMA also achieved the targets on the effectiveness and reliability of its internal control system established in its 2017 Management Plan (see Annex 10 "Implementation of objectives and targets of Management Plan 2017").

Even if all ICSs are fully implemented further improvements are possible and needed under some specific requirements and will be assessed by DG FISMA in light of the principles established by the new internal control framework.

Therefore, considering all above elements, DG FISMA has assessed the internal control systems during the reporting year and has concluded that the internal control standards are implemented and functioning.

2.1.4 Conclusions as regards assurance

This section reviews the assessment of the elements reported above (in Sections 2.1.1, 2.1.2 and 2.1.3) and draws conclusions supporting the declaration of assurance and whether it should be qualified with reservations.

The information reported in Section 2.1 stems from the results of management and auditor monitoring contained in the reports listed. These reports result from a systematic analysis of the evidence available. This approach provides sufficient guarantees as to the completeness and reliability of the information reported and results in a comprehensive

- DG FISMA internal controls systems provide sufficient assurance to manage appropriately the risks relating to the legality and regularity of the underlying transactions. They are proportionate and targeted to the risks stemming from its activities.
- DG FISMA has applied appropriate *ex-ante* controls, to the extent that they remain cost-effective. No substantial error has emerged from the results of the *ex-post* verification of a sample of transactions or following the on-the spot checks carried out in 2017. No cases were received by the Ombudsman and no legal proceedings were initiated by tenderers/contractors/beneficiaries.
- DG FISMA received no critical observations or recommendations from auditing bodies (ECA and IAS) and the IAS's conclusion on the state of control for 2017 is positive. The result of the IAS audit on the financial management of grants and procurement in DG FISMA in 2017 did not lead to any 'very important' or 'critical' recommendation and confirmed the adequate system of control implemented in DG FISMA to ensure the legality and regularity of transactions.
- DG FISMA assessment of the presence and functioning of its internal control systems as well as the preparatory work to set up the new internal control framework adopted by the Commission in 2017 did not highlight any major weakness which could have an impact on assurance.
- DG FISMA used its resources for their intended purposes and the principle of sound financial management was applied in the implementation of its budget.
- DG FISMA has taken all necessary internal measures to ensure that no significant information is omitted from this report which has been prepared with the support and direct involvement of the management and all services involved.
- DG FISMA has put in place suitable control measures to limit risks of error and prevent, detect and correct fraud and irregularities.

Therefore, DG FISMA considers that it has met its control objectives and assesses the information reported as complete, reliable and effectively underpinning its AOD's declaration of assurance for 2017.

Overall Conclusion

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

2.1.5 Declaration of Assurance

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 view¹⁶.

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 limited conclusion of the Internal Auditor on the state of control.

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

Brussels, 26/03/2018

[signed]

Olivier GUERSENT

¹⁶ True and fair in this context means a reliable, complete and correct view on the state of affairs in the DG/Executive Agency.

2.2 Other organisational management dimensions

2.2.1 Human resource management

The new HR service delivery model was introduced in February 2017. The Account Management Centre 1 inside DG HR is in charge of delivering HR services to the DG while the local HR BC team (2.5 FTE) is to focus on HR strategy and local people management. This new model represents a complete overhaul of HR service delivery. 2017 was a transition phase, as all new actors needed to understand their roles, get acquainted with the procedures and learn to work together. In this period of change, priority was given in DG FISMA to ensuring continuity in HR service delivery, both in speed and quality, which translated in a heavy workload for the FISMA BC team. As a result, several initiatives planned in the MP 2017 had to be postponed to the second half of the year, one could not be completed by year end and one could not be carried out.

DG FISMA successfully pursued its efforts on working towards its target of 35% of women in middle management by the end of 2019. At the end of 2017, 33% of the DG's middle managers were women, very close to the 2019 target. In this context, the DG offered a coaching programme for potential women in management with a high participation rate.

In 2017, the DG continued to best use the available resources by organising work in project teams outside the unit-based structure. The work in project teams will also be reflected in the CDR of the relevant job holder.

The DG ran for the third time a yearly workload assessment exercise to ensure that resources are aligned to priorities and to identify the needs for reinforcement.

2.2.2 Better regulation (only for DGs managing regulatory acquis)

In line with the general and specific objectives set out in its Management Plan 2017, DG FISMA has seen a clear increase in policy initiatives, leading to the completion of seven (7) impact assessments and four (4) evaluations in the past twelve months. In addition, ongoing work on several further impact assessments and evaluations will be completed in 2018. These activities directly contribute to the priorities of the Juncker Commission, in particular on achieving a deeper and fairer Internal Market with a strengthened industrial base.

The number of impact assessments carried out by DG FISMA in 2017 represents a 75% increase in comparison to the previous year. These files were completed with the same amount of available resources within the DG and were often concentrated in a limited period of time. As a result, the DG has not managed to maintain the positive trend achieved in 2016 on the number of impact assessment that received a favourable opinion on first submission to the Regulatory Scrutiny Board (RSB). To counter this negative trend, the internal governance structure for better regulation has been strengthened considerably and stricter quality requirements are now being applied.

The first positive results of this revised governance structure were already observable for two impact assessments approved by the RSB in Q4 (both received a positive RSB opinion on first submission) and continued for the files submitted to the RSB at the end of 2017.

As mentioned, four evaluations fully complying with the better regulation principles were also concluded during the same timeframe, thus bringing the percentage of DG FISMA's regulatory acquis covered by a retrospective evaluation to 22%.

For the proper implementation of the Better Regulation principles, the DG continued to extensively rely on its internal economic analysis and evaluation capacity. On particular topics that require specific knowledge of industry structure, business models, or technology being used, external studies continued to complement the DG's internal economic analysis.

2.2.3 Information management aspects

A strategy for Knowledge Management (KM) was formally endorsed by the senior management of the DG in April 2017, including four priorities:

- 1) Country knowledge on the enforcement of EU financial services legislation in the member states.
- 2) Further development and use of existing information repositories on financial services legislation and meetings of DG FISMA officials with external stakeholders.
- 3) Setting up an internal knowledge management network of officials in different units to promote the use of knowledge management tools and help in the further development of the knowledge management strategy.
- 4) Elaboration of common taxonomies to make content searchable across information repositories.

Steps were taken in the course of the year to roll out this strategy, e.g. with the creation of a platform to collect and share country knowledge related to the enforcement of EU legislation. The use of cross-unit project teams and thematic networks to ensure the pooling of specialist knowledge for the DG's policy deliverables was continued. The target set in the AMP 2017 that all new project teams would use a collaborative IT platform for their work was abandoned during the year to take account of the differing needs of project teams.

As regards document management, DG FISMA reached its two quantitative objectives in the AMP 2017 to increase the quality of ARES files. The Document Management Officer (DMO) continued to implement the action plan developed in 2016, e.g. through regular monitoring and information on document management performance, tailor-made training and coaching of staff and the internal network of filing plan officers in units. Special emphasis was put on increasing the use of ARES (including AresLook) by AD staff.

2.2.4 External communication activities

DG FISMA systematically informed about its policy deliverables, including consultations, through communication material for the media, on Twitter and in its electronic *Finance* Newsletter. The material increasingly included visuals (e.g. factsheets, infographics) to better explain the content of the deliverable in an easy-to-understand way. It highlighted benefits for citizens as consumers or investors. Each initiative was put into the context of the Commission's broader political priorities, i.e. jobs, growth and investment, a deeper and fairer Internal Market as well as Economic and Monetary Union. A special effort was made to communicate policy outputs related to Capital Markets Union and to retail financial services. DG FISMA also ran paid Twitter campaigns to draw special attention to two consultations on which it sought replies from citizens in addition to stakeholders. The monthly *Finance* Newsletter explained initiatives in a succinct form also to non-expert readers.

The launch of the planned promotion of FIN-NET (network of national out-of-court financial dispute resolution schemes) through a social media campaign had to be postponed to 2018 for technical reasons. This resulted in the non-achievement of the target for the hashtag #MyMoneyEU in the Annual Management Plan 2017. The FIN-NET webpages on the EUROPA website were published in all EU languages (plus Icelandic and Norwegian) to make FIN-NET more accessible to consumers. This probably contributed to the observed increase in the use of the FIN-NET online complaint form on EUROPA.

DG FISMA completed a full revamp of its pages on the EUROPA website as part of the Commission's broader strategy to make its web presence more user-friendly.

Progress towards DG FISMA's user satisfaction objective in its Strategic Plan 2016 – 2020 will next be measured through an online survey in the summer 2018. It can already be said that the number of followers on the DG's Twitter account @EU_Finance and the number of subscribers to the *Finance* Newsletter increased steadily in 2017 allowing the Commission to reach a broader audience on its policies to ensure financial stability, promote investment and improve financial services for consumers and investors.

2.2.5 Initiatives to improve economy and efficiency of financial and non-financial activities

The following are two examples of how DG FISMA strives to improve its operations with a view to optimising the economy and efficiency of resources.

a) **Event Management Tool (EMT)** is an information system that was developed in 2015 by DG FISMA to provide a transparent overview of all the meetings held with interest representatives, while rationalising (e.g. avoiding duplication of meetings) these interactions. EMT contributes to the reduction of administrative workload linked to the organisation of meetings by supporting the lifecycle of such meetings, from meeting requests to draft and automatic transfer of the minutes into the corporate document management system. In 2017 DG FISMA further reinforced EMT by creating new reports and revising user's roles to align with business processes. DG TRADE and TF50 also rolled out in 2017. In addition, in 2017 DG FISMA created a specific newsletter for EMT to explain in a user friendly way how it works and its new features.

b) **E-submission** is an electronic submission process allowing tenderers to send their bids to the Commission in an electronic way. This process implements the Commission commitment made in 2012 to a complete e-procurement by mid-2015. E-submission has been developed by DIGIT and it is planned to be rolled out though the whole Commission on a mandatory basis by end 2018.

DG FISMA could not join the pilot in 2017 as initially foreseen in its 2017 Management Plan but will join this process in the course of 2018 for compliance purposes and to make efficiency gains in terms of time and administrative management of tenders. To this end, an electronic authentication and validation process will replace the manual initialisation of unbound voluminous tenders; storage will also be dematerialized with corresponding economies for tenderers and the contracting authority; security of tenders will be improved by the use of encryption protocols.