



Annual Activity Report 2020

DIRECTORATE-GENERAL FOR FINANCIAL
STABILITY, FINANCIAL SERVICES AND THE
CAPITAL MARKETS UNION

Table of Contents

- THE DG IN BRIEF 3
- EXECUTIVE SUMMARY 3
 - A. Key results and progress towards the achievement of the Commission’s general objectives and DG’s specific objectives (executive summary of section 1)..... 4
 - B. Key Performance Indicators (KPIs)..... 6
 - C. Key conclusions on Financial management and Internal control (executive summary of section 2.1) 9
 - D. Provision of information to the Commissioner(s) 10
 - E. Specific actions on COVID-19 11
- 1. Key results and progress towards the achievement of the Commission’s general objectives and DG’s specific objectives..... 12
- 2. Modern and efficient administration and internal control..... 19
 - 2.1 Financial management and internal control** 19
 - 2.1.1 Control results..... 19
 - 2.1.2 Audit observations and recommendations..... 31
 - 2.1.3 Assessment of the effectiveness of internal control systems 33
 - 2.1.4 Conclusions on the assurance..... 33
 - 2.1.5 Declaration of Assurance 34
 - Declaration of Assurance** 35
 - 2.2 Modern and efficient administration – other aspects..... 36
 - 2.2.1 Human resource management 36
 - 2.2.2. Digital transformation and information management..... 37
 - 2.2.3 Sound environmental management 38

THE DG IN BRIEF

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

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

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

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

DG FISMA's work for a stable and competitive EU financial system is crucial to support our economy and to contribute to sustainable growth for the benefit of EU citizens. Due to the COVID-19 pandemic our ongoing work on market functioning and regulatory frameworks have been complemented by significant actions to reinforce the recovery. During 2020, the work on COVID-19 related proposals and our input to Commission-wide work significantly increased our work load. Much of this work was done under significant time pressure.

DG FISMA uses a broad range of legislative and non-legislative tools. In addition to "level 1" legislation, DG FISMA is actively involved in the development of delegated and implementing acts ("level 2"), often in close cooperation with the European Supervisory Authorities (ESAs). DG FISMA together with the ESAs work to facilitate convergence of supervisory practices in Member States. The objectives of DG FISMA are supported by enforcement policies. The work of DG FISMA is dependent on close coordination and cooperation with partners and stakeholders, both within the EU and internationally.

EXECUTIVE SUMMARY

This Annual Activity Report is a management report of the Director-General of DG FISMA to the College of Commissioners. Annual activity reports are the main instrument of management's accountability within the Commission and constitute the basis, on which the College takes political responsibility for its decisions as well as for the coordinating, executive and management functions it exercises, as laid down in the Treaties¹.

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

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

The COVID-19 pandemic has presented the European economy and financial system with unprecedented challenges. The actions of DG FISMA in 2020 have been designed to tackle the social, economic and financial consequences of the pandemic. This has gone alongside FISMA measures to improve the functioning of the financial markets and efforts to address longer-term structural challenges such as climate change, an aging population and digital transformation. In addition, DG FISMA continued to prepare the financial regulatory framework of the Union to ensure no financial disturbance occur at the end of the transition period in relation to the Withdrawal of the United Kingdom, and supported the UK Task Force in the negotiations of the new Comprehensive Trade Agreement with the United-Kingdom.

DG FISMA published a new Action Plan to advance the **Capital Markets Union** in September 2020. DG FISMA also significantly progressed the work on an initiative concerning **investment protection and facilitation** in the EU. It furthermore launched several actions to stimulate participation in **occupational pension** schemes, and adopted implementing measures related to the **Pan-European Personal Pension** (PEPP) framework.

The **Capital Markets Recovery Package** was presented in the middle of 2020. It contained changes to the Markets in Financial Instruments Directive (MiFID) and the Prospectus Regulation in order to facilitate funding and rapid recapitalisation after the economic problems due to the COVID-19 pandemic. Amendments furthermore covered the securitisation framework (the Securitisation Regulation and the Capital Requirements Regulation). The **Benchmark Regulation** was adjusted to avoid disruption of the EU's financial markets when a widely used benchmark is phased out.

In April 2020, the Commission presented a package comprised of an Interpretative Communication and a proposal for a Regulation amending the **prudential framework for banks to provide targeted and temporary regulatory relief to banks**. The "CRR fix" (Capital Requirements Regulation) was adopted in time for the publication of banks' Q2 results and had a significant positive impact. The Commission postponed by a year the adoption of the proposal implementing the final elements of the Basel III reform in EU law.

In May 2020, the Commission adopted a comprehensive Action Plan on **Anti-Money Laundering** and Combating the Financing of Terrorism (AML/CFT).

In November 2020, the **Eurogroup agreed on the backstop for the Single Resolution Fund** (SRF) by the European Supervisory Mechanism (ESM) and its early introduction, on the basis of an Extended Risk Reduction Monitoring report prepared by the Commission, the European Central Bank (ECB) and the Single Resolution Board (SRB). DG FISMA did extensive

technical work reviewing the Crisis Management and Deposit Insurance framework (CMDI), together with further technical work on the European Depositor Insurance Scheme (EDIS).

In December 2020, the Commission adopted the Communication on a comprehensive EU strategy to tackle **non-performing loans** in the aftermath of the COVID-19 pandemic.

In November 2020, the Commission issued an Interpretative Communication related to the **European Single Electronic Format** (ESEF) as well as a Delegated Regulation containing amendments to the ESEF taxonomy. The envisaged amendments to the **PRIIPS** (Packaged Retail Investment and Insurance Products) RTS relating to the key information document were slightly delayed (adoption now planned for the first quarter 2021).

The Commission started work on the reviews of the **Payments Accounts Directive** and the **Mortgage Credit Directive**. Concerning the **fitness check of public reporting**, a Commission Staff Working Document planned for third quarter 2020 was presented in January 2021.

The preparations for the **Renewed Sustainable Finance Strategy** were significantly advanced and it is planned to be presented in the spring of 2021. The **Taxonomy Delegated Act** created large interest and the Commission received over 46 000 replies to the public consultation (adoption spring 2021). The **Platform on Sustainable Finance** that will advise the Commission on developments in this area was set up in the autumn of 2020. During 2020 DG FISMA prepared amendments to integrate sustainability risks and sustainability factors into several financial sector Delegated Acts, and the package will be adopted in the spring of 2021. Finally, the Commission conducted a targeted consultation on the **Green Bond Standard** and commissioned an external study on the **ECO-label criteria**.

In September, the Commission adopted a package containing a Communication on a **Digital Finance Strategy**, a Communication on a Retail Payments Strategy for the EU and two legislative proposals on crypto assets and digital resilience.

In 2020, DG FISMA intensified its bilateral **regulatory dialogues** with a number of third countries, including the USA, Canada, China, Japan and for the first time with Latin America. Concerning **UK relations**, DG FISMA took part in the negotiations concluded with the Trade and Cooperation Agreement on 24 December 2020. DG FISMA worked during 2020 towards the adoption of a Communication, entitled "**The European economic and financial system: fostering openness, strength and resilience**" (adopted on 19 January 2021). DG FISMA became the Commission's lead service for restrictive measures (**sanctions**) from January 2020.

B. Key Performance Indicators (KPIs)

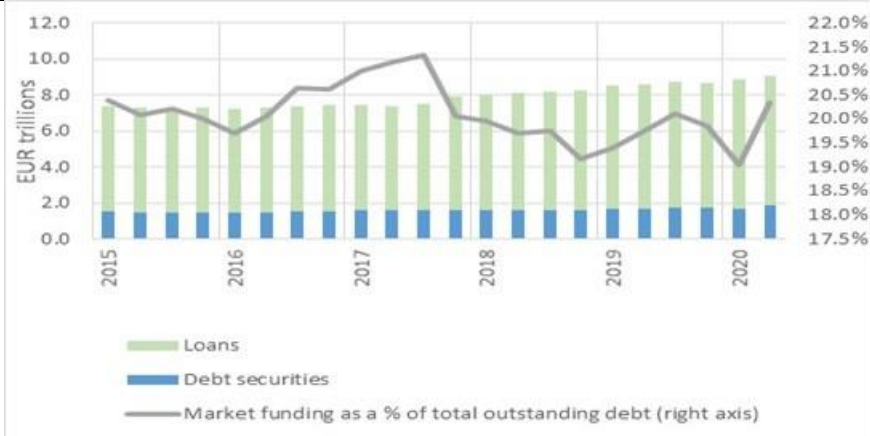
Key performance indicators for general and specific objectives

Result indicator: Share of market funding in non-financial corporations' (NFCs) outstanding debt		
Explanation: It is an access to finance indicator showing to what extent non-financial companies (NFCs) finance their debt with a market instrument compared to bank loans. It is calculated as the outstanding amount of debt securities issued by NFCs divided by the sum of outstanding amount of debt securities issued by NFCs and loans vis-a-vis euro area NFCs reported by monetary financial institutions (MFIs) (excluding ESCB).		
Source of data: ECB and DG FISMA calculations		
Baseline (November 2019)	Interim milestone (2022)	Target (2024)
21%	Increase	Increase
Result indicator: Share of household assets invested in financial instruments		
Explanation: It is an indicator of retail investors' participation in financial markets. It measures the sum of households' investment in debt securities, listed shares, investment fund shares/units, life insurance and annuity entitlements, pension entitlements), as a percentage of total financial assets held by households in the EU-27.		
Source of data: Eurostat (Financial balance sheets nasa_10_f_bs)		
Baseline (2018)	Interim milestone (2022)	Target (2024)
46.07%	Increase	Increase

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

The first key performance indicator aims to track the importance of market based debt in the total outstanding debt funding of non-financial corporations. More specifically, it aims to track the increase in the importance of debt securities compared to bank loans that are traditionally more widely used by European corporations. The share of market-based financing in the total outstanding debt of non-financial corporations declined by 5.4% in the beginning of 2020 compared to the baseline value of the third quarter of 2019. By the second quarter of 2020 the indicator had recovered its COVID-19 related decline and had even been 1.1% higher than the baseline level set before the pre-COVID-19 crisis. The decline in the first quarter of 2020 was due to lower outstanding amounts and issuances of debt securities, while bank loans were more than 3% higher compared to the baseline period. After the most acute stage of the COVID-19 crisis in the beginning of 2020, the importance of debt securities in the debt funding of non-financial corporations started increasing again and by the second quarter of 2020 their value had already reached the pre-crisis level of EUR 1.8 trillion.

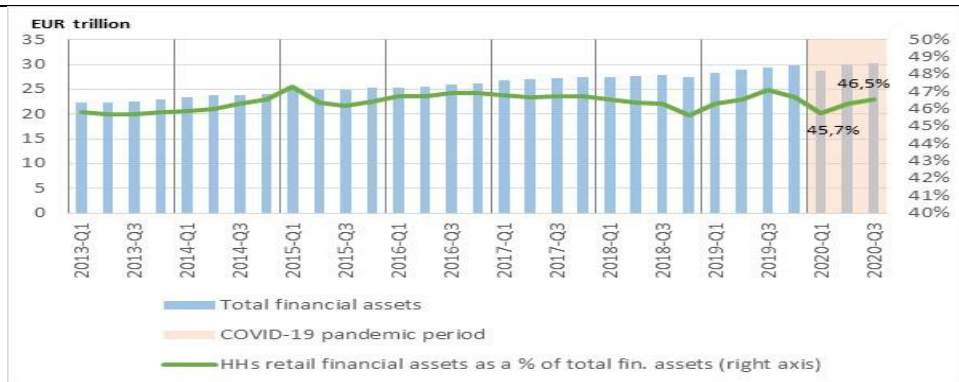
Figure 1. Share of market funding in the total outstanding debt of EU-27 non-financial corporations



Source: DG FISMA calculations based on ESTAT Quarterly Financial Accounts

The second key performance indicator is the share of household financial assets invested in market based financial instruments, which reflects the level of retail participation in financial markets (including direct investments or indirect participation via investment funds, insurance or pension products). This indicator has been rather stable, ranging between 45% and 47% over the long period shown in Figure 4. The impact of the COVID-19 pandemic was an initial decline the total amount of household financial assets as well as in the share of investments in market-based financial instruments in the first quarter of 2020 compared to the last quarter of 2019, coinciding with the sharp downturn in financial markets as well as increased risk aversion and savings predominantly in bank deposits. By the third quarter of 2020, the indicator recovered almost entirely, owing also to the unprecedented intervention in financial markets. The overall impact of the pandemic on retail investor participation in financial markets remains to be seen and warrants further policy attention.

Figure 2. Household financial assets invested in market-based financial instruments



Source: DG FISMA calculations based on ESTAT Quarterly Financial Accounts

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

Key performance indicator for modern and efficient administration

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

Objective: DG FISMA is using innovative, trusted digital solutions for better policy-shaping, information management and administrative processes to forge a truly digitally transformed, user-focused and data-driven Commission				
Indicator: Degree of implementation of the digital strategy principles by the most important IT solutions				
Source of data: DG FISMA				
IT solution	Baseline (2018)	Interim milestone (2022)	Target (2024)	Latest known results (December 2020)
BASIS	40%	81%	95%	64%
EMT	40%	95%	100%	68%
KOEL	40%	95%	100%	68%

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

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

To ensure the achievement of policy and management objectives, the Commission has adopted a set of internal control principles, based on international good practice. The Financial Regulation requires that the organisational structure and the internal control systems used to implement the EU budget be set up in accordance with these principles. DG FISMA has assessed its internal control systems during the reporting year and has concluded that it is effective and the components and principles are present and functioning well overall, but small improvements are needed. Please refer to AAR section 2.1.3 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, the main elements of this report and assurance declaration, have been brought to the attention of Commissioner Mairead McGuinness, responsible for financial services, financial stability and Capital Markets Union.

E. Specific actions on COVID-19

In 2020, Europe was strongly impacted by the COVID-19 pandemic. The Commission has proposed a strong and coordinated response to the health crisis as well as to the impact on Europe's economy and society. COVID-19 has also posed challenges as regards performance, control, audit and assurance in relation to the 2020 EU budget. In an exercise coordinated at corporate level, all Commission services have promoted the consistent and rigorous protection of the EU budget ensuring that appropriate mitigating measures were put in place.

The COVID-19 pandemic has presented the European economy and financial system with unprecedented challenges. The actions of DG FISMA in 2020 have been designed to tackle the social, economic and financial consequences of the pandemic. An intensified financial market monitoring and financial sector country surveillance has informed the policy debate. Several roundtable discussions with stakeholders, including banking associations, insurance associations and consumer associations, took place during 2020 and resulted in recommendations for relief measures for consumer and business in the context of the COVID-19 triggered crisis, including on moratoria for loan repayments.

The work on completing the Banking Union and the Capital Market Union is particularly important in the COVID-19 situation. DG FISMA has taken swift action to ensure that the regulatory frameworks for financial markets are suitable in this difficult situation. At an early stage, targeted adaptations to banking regulation were presented in order to encourage continued bank lending to households and businesses. As a follow-up to the Interpretative Communication, the Commission also organised a Roundtable with stakeholders representing lenders and issuers as well as consumers and businesses. As a result of this dialogue, the stakeholders agreed on a set of 'Best Practices in relation to relief measures offered to consumers and businesses in the context of the COVID-19 crisis' adopted on 14 July.

A Capital Markets Recovery Package was presented in July, and concluded by co-legislators in December. An elaborated strategy on Non-Performing Loans was presented in mid-December. DG FISMA has been actively involved in the work of the broad recovery and resilience work in the Commission. In particular, DG FISMA had an important role in ensuring that the green and digital transitions are reflected in the recovery measures for the benefits of EU citizens. Sustainable finance and the renewed strategy have a critical role to play to improve the resilience of our system. DG FISMA has furthermore taken a large number of specific COVID-related actions, for example echoing an EBA call to contribute to measures that limit the spread of COVID-19 by raising the limits for contactless payments, postponing of the entry into force of the regulatory technical standards on settlement discipline by one year, and adopted amendment to IFRS 16 concerning lease payments relief.

As regards restrictive measures (sanctions), Commission Guidance Notes were made public to clarify how humanitarian aid to fight the COVID-19 pandemic could be provided to third countries in full respect of the restrictive measures.

The Commission acknowledged the administrative difficulties of national administrations to deal with enforcement matters and, until the July infringement meeting, it granted longer response deadlines to Member States in the infringement procedures.

1. Key results and progress towards the achievement of the Commission's general objectives and DG's specific objectives²

In 2020, DG FISMA concentrated its efforts on achieving the Commission's general objective 'An Economy that works for people', but also contributed to other political priorities, such as 'A European Green Deal', 'A Europe fit for the digital age' and 'A stronger Europe in the world'. DG FISMA was also actively involved in the work on the EU recovery plan following the COVID-19 pandemic.

In order to achieve these general objectives, DG FISMA's strategy consists of six specific objectives. Below we will give a non-exhaustive summary of some of the outputs achieved during 2020 to meet these specific objectives. Detailed information on all initiatives can be found in Annex 2.

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

DG FISMA published a new **Action Plan to advance the Capital Market Union** in September 2020. This Action Plan includes sixteen targeted policy measures, building on the recommendations put forward by the High Level Forum on Capital Markets Union in June 2020 to address the obstacles identified towards the development and integration of capital markets in the EU. These policy measures will determine large parts of DG FISMA's work programme in the years to come. DG FISMA started work on the implementation of these measures immediately after the adoption of the Action Plan and made progress on some of them already in 2020. DG FISMA significantly progressed the work on an initiative concerning **investment protection and facilitation** in the EU (to be presented in the second quarter of 2021). It furthermore launched several actions to stimulate participation in **occupational pension schemes**: a call for advice was sent to EIOPA on the development of pension dashboards and pension tracking tools and a study on auto-enrolment in occupational pension schemes was awarded to an independent contractor. Also, first implementing measures were adopted to enable the application of the **Pan-European Personal Pension (PEPP) framework**.

As part of the **Capital Markets Recovery package**, the Markets in Financial Instruments Directive (MiFID) and the Prospectus Regulation were adjusted to facilitate funding and allowing rapid recapitalisation after the economic hit from the COVID-19 pandemic. The **Benchmark Regulation** was adjusted to avoid disruption of the EU's financial markets when a widely used benchmark is phased out. Amendments also covered the securitisation

² An Executive Agency uses as heading: "Implementation of the Agency's Annual Work programme - Highlights of the year".

framework (the Securitisation Regulation and the Capital Requirements Regulation), in particular as regards prudential treatment of securitisations of non-performing exposures (NPEs) in order to facilitating the use of securitisation in the post-COVID recovery by enabling banks to expand their lending and to free their balance sheets of non-performing exposures.

To support small and innovative companies' access to public markets and promote listings, in 2020 DG FISMA set up a **technical expert stakeholder group on SMEs** which is expected to put forward their recommendations to the Commission in the second quarter of 2021.

The Commission published a report assessing the application and the scope of the **Alternative Investment Fund Managers Directive (AIFMD)**. Public consultations were conducted on Central Securities Depositories (CSDs), AIFMD and on European Long-Term Investment Funds (ELTIF). Legislative proposals in these areas will come in 2021.

In November 2020, the European Court of Auditors presented a Special Report on Capital Markets Union – "Slow start towards an ambitious goal". The Financial Services Committee discussed this report in January 2021 with a view to prepare Council conclusions.

2. *Financial stability is preserved and improved by efficient supervision and crisis management mechanisms, by means to absorb shocks and diversify risks, and a comprehensive approach is in place to fight money laundering and the financing of terrorist activities*

On 7 May 2020, the Commission adopted as outlined in its Work Programme a comprehensive **Action Plan on Anti-Money Laundering and Combating the Financing of Terrorism** (AML/CFT). The Action Plan was accompanied by a Delegated Act establishing a revised list of high-risk third countries for AML/CFT, which entered into application in October 2020, and a revised EU methodology for the identification of high-risk third countries.

On 28 April 2020, the Commission adopted a package comprised of an Interpretative Communication on the application of the **accounting and prudential frameworks to facilitate EU bank lending** and a proposal for a Regulation amending the prudential framework for banks to provide targeted and temporary regulatory relief to banks. The aim of the package was to maximise the capacity of banks to lend and to absorb losses related to the Coronavirus pandemic, while still ensuring their continued resilience. The Regulation was adopted by the European Parliament and the Council on 24 June 2020.

The Commission postponed by a year the adoption of the proposal implementing the final elements of the **Basel III reform** in EU law, in line with the agreement at international level.

In November 2020, the Eurogroup agreed on the **backstop for the Single Resolution Fund (SRF) by the European Supervisory Mechanism (ESM)** and its early introduction, on the basis of an extended Risk Reduction Monitoring report prepared by the Commission, the European Central Bank (ECB) and the Single Resolution Board (SRB). To prepare a forthcoming legislative proposal (scheduled in the end of 2021), DG FISMA did extensive technical work reviewing the **Crisis Management and Deposit Insurance framework (CMDI)**, together with further technical work on the **European Depositor Insurance Scheme (EDIS)**.

In December 2020, the Commission adopted the Communication on a comprehensive EU strategy to tackle **non-performing loans** in the aftermath of the COVID-19 pandemic outlining a strategy to address the likely rise of banks' non-performing loans due to the COVID-19 crisis and the ensuing corporate-sector crisis in the EU. The Communication addresses measures to strengthen secondary markets of non-performing loans, the potential role of asset management companies, the contribution of strengthening insolvency frameworks, and possibilities for action under the Bank Recovery and Resolution Directive in support of banks in financial difficulties.

The amended **European Market Infrastructure Regulation (EMIR "2.2")** entered into force on 1 January 2020. In July 2020, the Commission adopted three delegated acts with regard to the criteria to be considered by the European Securities Markets Authority (ESMA) when tiering third-country Central Counterparties (CCPs), the minimum elements to be assessed by ESMA when assessing third-country CCPs' requests for comparable compliance and the fees to be charged to third-country CCPs. The Commission also assisted ESMA in the setting up of the CCP Supervisory Committee, an internal committee within ESMA which is entrusted with specific tasks in relation to EU and third-country CCPs.

DG FISMA adopted a number of delegated and implementing acts under EMIR, amendments to the technical standards on the composition and functioning of CCP colleges and amendments to the technical standards on risk mitigation techniques applicable to transactions not cleared by a CCP and the technical standards on the clearing obligation.

On post-trade, the Brexit dimension remained important. In September 2020, the Commission adopted an **equivalence decision determining that the regulatory framework applicable to UK CCPs** is equivalent in accordance with EMIR for a limited period of time, namely until 30 June 2022. This was considered necessary in order to avoid potential risks to financial stability and give industry the necessary time to reduce their exposure to UK CCPs. Moreover, in November 2020 the Commission also adopted an **equivalence decision determining that the regulatory framework applicable to UK CSDs** is equivalent in accordance with CSDR for a limited period of time, namely until 30 June 2021. This was considered necessary in order to ensure the smooth migration of Irish corporate securities and ETFs (Exchange Traded Funds) from the UK CSD to a Union CSD, a project which is expected to be completed by March 2021.

Concerning CCPs, the political agreement on the proposal for a Regulation on recovery and resolution of these entities was agreed in the summer 2020 (published in the OJ in January 2021).

To ensure that rules for the insurance and reinsurance sector remain fit for purpose and that the sector can contribute to the economic recovery, the Capital Markets Union, as well as the green and digital transition, DG FISMA ran a **public consultation on the review of the Solvency II Directive** (legislative proposal planned for the third quarter of 2021).

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

Throughout the year the Commission did significant work in connection to its resolution function and followed the work of the **Single Resolution Board**.

DG FISMA welcomed the suggestions by the European Court of Auditors (ECA) to make better use of the EU Semester process to develop local capital markets. We also worked with DG Competition to analyse the recommendations in the ECA report on control of state aid to financial institutions in the EU.

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

Several **roundtable discussions with stakeholders**, including banking associations, insurance associations and consumer associations, took place during 2020 and resulted in recommendations for relief measures for consumer and business in the context of the COVID-19 triggered crisis. DG FISMA also started exploratory work on identifying the extent of the insurance protection gap in the context of financial risks related to pandemic events and the feasibility of addressing such a gap. Furthermore, DG FISMA was strongly engaged through its country surveillance work in the policy development at national level with regards to changes to the national insolvency framework and support measures for COVID-19 stricken debtors.

In 2020, the Commission carried out the preparatory work for a review report on the **Mortgage Credit Directive** which will be adopted early 2021. The Commission has also started its work on the review of the **Payment Accounts Directive**.

The second report on the monitoring of the EU market for statutory audits of **Public Interest Entities** (PIEs) was adopted on 28 January 2021. The slight delay was due to the need to incorporate feedback from the relevant national competent authorities.

Concerning the **European Single Electronic Format** (ESEF), a Commission Interpretative Communication was issued in November 2020 together with a Delegated Regulation containing amendments to the ESEF taxonomy. As a part of the Capital Markets Recovery

Package, the European Parliament and the Council agreed in December 2020 to delay by one year the application of ESEF for listed companies' annual financial reports.

The envisaged amendments to the **PRIIPS (Packaged Retail Investment and Insurance Products)** RTS relating to the key information document were slightly delayed (adoption planned for the third quarter 2020). The European Banking Authority (EBA) and the European Securities Markets Authority (ESMA) endorsed the draft RTS in July 2020, and the European Insurance and Occupational Pensions Authority (EIOPA) did so in February 2021. Adoption of the RTS is envisaged for the end of the first quarter 2021, together with the linked amendments to the UCITS (Undertakings for the Collective Investments in Transferable Securities) Directive.

A Commission Staff Working Document relating to the **fitness check of public reporting**, initially planned for the third quarter 2020, was presented in January 2021. The delay was due to the need to take further analysis of the Wirecard case into account.

4. More private capital is made available for sustainable investments

DG FISMA has done considerable work throughout the year to advancing all major sustainable finance work streams. The **preparations for the Renewed Sustainable Finance Strategy** were advanced, but additional time was needed to analyse the large number of comments received from stakeholders and Member States. The timing was also impacted by the COVID-19 situation and the prominent role sustainable finance plays in the recovery initiatives. The Renewed Strategy will therefore be presented in the spring of 2021.

The **Taxonomy Delegated Act** created considerable interest and the Commission received over 46000 replies to the public consultation. The Commission had to postpone the adoption in order to properly analyse and process all responses received in the public consultation and all comments provided by Member States. The Taxonomy Delegated Act will be presented in the spring of 2021, and this timing would also allow consulting properly the advice from the Platform on the transitional aspects.

The **Platform on Sustainable Finance** was set up in autumn 2020. The Platform will advise the Commission on further developments in the area of sustainable finance. The Commission is also pursuing its effort to scale up sustainable finance globally. In this regard, the International Platform on Sustainable Finance (IPSF) published its first Annual Report in October 2020.

During 2020 DG FISMA prepared amendments to **integrate sustainability risks and sustainability factors** into several financial sector DA legal acts (UCITS, AIFMD, Solvency II, MiFID, Insurance Distribution Directive). The interservice consultation was concluded in December 2020, and the package will be adopted in the spring of 2021.

The Commission conducted a targeted consultation on the **Green Bond Standard** and commissioned an external study on the **ECO-label criteria**.

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

As announced in the Work Programme, the Commission adopted in September 2020 a package containing a Communication on a **Digital Finance Strategy**, a Communication on a **Retail Payments Strategy** for the EU as well as two specific legislative proposals. All initiatives were preceded by consultations.

The Digital Finance Strategy outlines ways forward that can help modernise the European economy across sectors and turn Europe into a global digital player.

The Retail Payments Strategy for the EU aims to further develop the European payments market so Europe can benefit fully from innovation and the opportunities that come with digitalisation.

The legislative proposals contained in the package relate to **crypto assets** in the form of a proposal for a Regulation on markets in crypto assets and to a proposal for a Regulation on a pilot regime for **DLT (distributed ledger technologies)** market infrastructures.

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

In 2020, DG FISMA intensified its bilateral **regulatory dialogues with a number of third countries**, including the USA, Canada, China, Japan and for the first time with Latin America. Regarding UK relations, DG FISMA took part in the negotiations concluded with the **Trade and Cooperation Agreement** on 24 December 2020. DG FISMA led on the ongoing UK equivalence assessments, in cooperation with ESAs, ECB and the SRB and covering 28 equivalence areas – with 2 temporary decisions adopted in 2020 on CCPs and CSDs (see above). Finally, DG FISMA worked on readiness by the financial sector, with several sectorial notices and communications. This resulted in no major disruption on 1 January 2021.

DG FISMA worked during 2020, as of summer 2020 as the responsible lead service, and in close co-operation with a number of other DGs, towards the adoption of a Communication, entitled **“The European economic and financial system: fostering openness, strength and resilience”** (adopted on 19 January 2021). It addresses some closely related and interacting work strands that have proven to be of prime relevance in this respect: promoting the international role of the euro, strengthening the EU's financial market infrastructures, improving the implementation and enforcement of EU sanctions

and increasing the EU's resilience to the effects of the unlawful extra-territorial application of unilateral sanctions and other measures by third countries.

DG FISMA became the **Commission's lead service for sanctions** in January 2020. This responsibility includes, in particular, the Regulations imposing restrictive measures which are often needed to comply with Resolutions of the UN Security Council and typically require that funds and economic resources of designated persons are frozen. Under this heading five Joint Proposals for Council Regulations and 14 Commission Implementing Regulations were made in 2020. Regulation (EEC) No 2271/96 prohibits compliance with certain sanctions of third countries to counter their extraterritorial application where such application is in breach of international law. In 2020, three Commission Decisions were adopted pursuant to Article 5, second paragraph of that Regulation. The envisaged establishment of an expert group on EU restrictive measures and extra-territoriality has been slightly delayed until the spring of 2021.

Transposition and enforcement

As a successful implementation of all the above objectives depends on **timely and correct transposition of EU Directives**, DG FISMA organised transposition workshops, examined notified national transposition measures to verify whether they fully and correctly transposed EU Directives, and engaged with the Member States where needed, including via infringement proceedings.

2. Modern and efficient administration and internal control

2.1 Financial management and internal control

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

This examination is carried out by management, who monitors the functioning of the internal control systems on a continuous basis, and by internal and external auditors. The results are explicitly documented and reported to the Director-General. The following reports have been considered: (1) the reports of DG FISMA's authorising officers; (2) the reports of authorising officers in other DGs managing DG FISMA's budget appropriations; (3) the annual assessment of the effectiveness of DG FISMA's internal control framework and the assessment of DG FISMA's costs of controls; (4) the reports on the ex-post checks performed on a sample of transactions; (5) the register on exceptions and non-compliance events; and (6) the limited conclusions of the Internal Audit Service (IAS) on the state of internal control.

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 covers the control results and other relevant elements that support management's assurance. It is structured into (a) Control results, (b) Audit observations and recommendations, (c) Effectiveness of internal control systems, and resulting in (d) Conclusions on the assurance.

2.1.1 Control results

This section reports and assesses the elements identified by management which support the assurance on the achievement of the internal control objectives³. The DG's assurance building and materiality criteria are outlined in Annex 5. Annex 6 outlines the main risks together with the control processes to mitigate them and the indicators used to measure the performance of the relevant control systems.

The control indicators and results described in detail in the following paragraphs, Annex 6 and Annex 7 are reliable and complete and provide assurance about the achievement of the internal control objectives.

³ 1) Effectiveness, efficiency and economy of operations; 2) reliability of reporting; 3) safeguarding of assets and information; 4) prevention, detection, correction and follow-up of fraud and irregularities; and 5) adequate management of the risks relating to the legality and regularity of the underlying transactions, taking into account the multiannual character of programmes as well as the nature of the payments (FR Art 36.2). The 2nd and/or 3rd Internal Control Objective(s) (ICO) only when applicable, given the DG's activities.

ACTIVITIES/ SPECIFIC RISK AREAS	Activity 1 Implementation and development of the single market for financial services + pilot projects and operational activities (sub)delegated by other 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
Direct management Grants	-	€ 7 724 908	€ 1 335 031	-	€ 63 018 219
Direct management Procurement⁴	€ 8 629 737 ⁵	-	-	-	
Indirect management	-	-	-	€ 45 328 543	
Relevant Internal Control Objectives (ICOs)- main conclusions?	<ul style="list-style-type: none"> - Legality & Regularity: see paragraph 2.1.1.3, Annex 6 and Annex 7 - Effectiveness, efficiency, economy of operations: see paragraph 2.1.1.3, Annex 6 and Annex 7 - Prevention, detection, correction and follow up of fraud and irregularities: see paragraph 2.1.1.3, Annex 6 and Annex 7 				
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

2.1.1.1 Budget coverage

Section 2.1 covers all expenditure operations of DG FISMA in both direct and indirect management. **DG FISMA's total expenditure in 2020 was EUR 63 018 219** of which EUR 1 429 266 administrative expenditure and EUR 61 588 953 operational expenditure. The majority of DG FISMA operational expenditure is linked to the payment of the contributions from the EU budget to the ESAs (73%) with the remainder being for grants (15%) and for procurement of studies, assessment and data necessary for DG FISMA's activities as well as for the operation and development of IT system (12%). The administrative expenditure of DG FISMA corresponds to 2% of the total payments made.⁶

DG FISMA does not carry out systematic and significant revenue operations and does not report on them separately. The controls applied at the level of the expenditure in grants,

⁴ Including also administrative expenditure and pilot projects.

⁵ 7 200 471 EUR operational expenditure + 1 429 266 EUR administrative expenditure.

⁶ A more detailed breakdown of DG FISMA's expenditure is provided in Annex 7.

procurement and contributions to the ESAs also cover the 'revenue' operations made in these areas⁷.

2.1.1.2 Mandatory reporting as per Financial Regulation

DG FISMA did not record any of the following cases:

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

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

2.1.1.3 Effectiveness = the control results and benefits

2.1.1.3.1 Legality and regularity of the transactions

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

Benefits of controls in procurements and grants

- EUR 44 194 of liquidated damages/reduction in price
- EUR 43 319 of ineligible costs rejected at commitment/payment level leading to EUR 29 461 savings
- EUR 81 739 of undue amounts recovered
- 18 payments (7%) suspended for clarifications

The legality and regularity of transactions is ensured by the **ex-ante and ex-post controls** made by DG FISMA described in Annex 5. The financial aspects of each operation are carried out by DG FISMA are verified by a central team of financial agents that

⁷ In 2020 DG FISMA exceptionally launched two recovery orders to enforce two judgments of the European Court of Justice imposing lump sums and penalty payments to member states not having fully transposed the 4th anti-money laundering directive. These recovery orders (indicated as 'fines' in table 7 of Annex 3) were prepared in agreement with the Legal Service and in line with Chapter 2 of the Commission Decision C(2018) 511 of 3.8.2018 on the recovery of lump sums and penalty payments imposed by the Court of Justice of the European Union under Articles 260 and 279 of the Treaty on the Functioning of the European Union.

have the necessary competence and training to avoid and detect errors or irregularities. This centralised control system strengthens the capacity of DG FISMA to ensure a coherent and systematic application of the rules.

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

Direct management – Grants and procurement

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

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

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

These controls provided tangible benefits. Overall, **DG FISMA saved EUR 155 394** by rejecting ineligible costs in grants at the stage of the commitment or payment (EUR 29 461), by recovering undue amount from beneficiaries (EUR 81 739) or by applying liquidated damages for partial or delayed implementation of contractual provisions (EUR 44 194). DG FISMA also suspended 18 payments (7% of the total) to request clarifications on the eligibility of costs and/or the work carried out under contracts or grant agreements allowing for example the identification of ineligible costs and enhancing the quality of the reports submitted.

These quantitative benefits are also complemented by several qualitative/quantitative benefits as indicated in Annex 7 that are particularly linked to the prevention of future errors, which is key for a DG such as DG FISMA that has long-term relationship with its beneficiaries.

In the course of 2020, **DG FISMA did not receive formal complaints from contractors or beneficiaries**. Divergent opinions linked to either the results of a tender procedure, the eligibility of costs or application of liquidated damages were clarified and settled without leading to either formal complaints or litigation. The Ombudsman received two complaints from Members of the European Parliament in relation to the award of a study and the composition of an expert group⁸.

⁸ See Annex 7 for more information.

In 2020, DG FISMA recorded **3 exceptions and 2 non-compliance events**. These events are linked to the reimbursement of travel expenses of experts and mission orders. Their budgetary implications are very low and they do not reveal structural issues having an impact on assurance.

During the **ex-post checks** carried out on 2020 operations DG FISMA did not detect any major error but only administrative encoding errors.

Indirect management – European Supervisory Authorities

In the context of the participation of the DG's representatives in the Board of Supervisors and the Management Board of the ESAs and DG FISMA's regular working relations with 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 the ESAs' operations or raise concerns about fraudulent activities linked to their transactions.

DG FISMA carries out **controls over the contributions paid to the ESAs** as well as any recovery of unused or undue funds. These controls resulted in tangible benefits. For example, DG FISMA corrected an error of EUR 461 066 related to the contributions requested by the ESAs in 2019. While assessing the programming documents submitted by the ESAs in the context of the annual budgetary process, their requests for contributions submitted in 2020 and their actual cash flow, DG FISMA did not detect any illegal or irregular activity.

Within the limits of DG FISMA's governance remit on the ESAs (see Annex 12 for more details), we did not detect, nor were we made aware of, any fact that could prejudice the good working relations that have been established or the reliability of the key conclusions mentioned under point C) of the Executive Summary.

Nevertheless, following a resolution of the European Parliament in relation to a situation of conflict of interests of the former Executive Director of the EBA having joined a lobby organisation as CEO in 2019, DG FISMA is enforcing, in coordination with all Commission services, a systematic ban on meetings and contacts with him until 1st February 2022.

Conclusion on legality and regularity

Results of the ex-ante and ex post controls mentioned in the previous paragraphs and described in detail in Annex 7 suggest that the control objective has been achieved. The controls in place are proportionate compared to the risks entailed by DG FISMA's operations and adequate to ensure the legality and regularity of its transactions. The COVID-19 crisis had no impact on DG FISMA's assurance of the legality and regularity of its operations. A foreseen on-the-spot control of a grant managed by DG FISMA could not go ahead as had been planned, but the rigorous ex-ante controls on all grants were maintained throughout the period.

Estimated overall amount at risk at closure

DG FISMA's portfolio consists of segments with a relatively low estimated error rate. This is,

respectively, thanks to the inherent risk profile of the programme, beneficiaries and funding modalities and the performance of the related control systems.

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

The **estimated overall risk at payment** for 2020 expenditure amounts to 0.43 M€, representing 0.7 % of the DG's total relevant expenditure for 2020. This is the AOD's best, conservative estimation of the amount of relevant expenditure during the year not in conformity with the contractual and regulatory provisions applicable at the time the payment was made.

This expenditure will subsequently be subject to ex-post controls and a proportion of the underlying errors will be detected and corrected in subsequent years. The conservatively **estimated future corrections** for 2020 expenditure amount to 0,06 M€. This is the amount of errors that the DG conservatively estimates will be identified and corrected by controls planned to be carried out in subsequent years.

The difference between those two amounts results in the **estimated overall risk at closure** of 0.37 M€, representing 0.63% of the DG's total relevant expenditure for 2020.

In the context of the protection of the EU budget, the DGs' estimated overall risk at payment, estimated future corrections and risk at closure are consolidated at Commission level in the AMPR.

The estimated overall risk at closure of the DG has increased compared to 2019 due to the adoption of a more conservative approach in estimating the error rates in grants. The overall risk at closure remains very low in absolute terms.

Table – estimated risk at closure

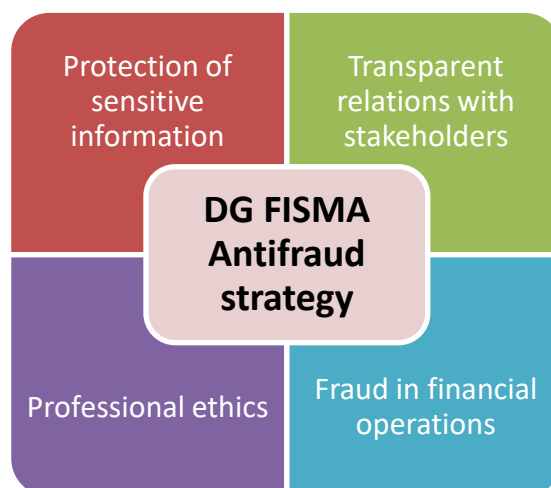
DG FISMA	Payments made (2020; €)	New prefinancing (2020; €)	Cleared prefinancing (2020; €)	Relevant expenditure (2020; €)	Average Error Rate (weighted AER; %) ⁹	Estimated risk at payment (2020; €)	Average Recoveries and Corrections (%) ¹⁰	Estimated future corrections (and deductions) (2020; €)	Estimated at closure (€)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Programme, Budget Line(s), or other relevant level				= (2) – (3) + (4)		= (5) x (6)		= (5) x (8)	= (7) – (9)
Procurement	8 629 737 €	12 774 €	0 €	8 616 963 €	0.5%	43 085 €	0.2%	17 234 €	25 851 €
Grants	9 059 939 €	5 643 486 €	5 902 281 €	9 318 734 €	2%	186 374 €	0.5%	46 593 €	139 781 €
ESAs	45 328 543 €	45 328 543 €	41 137 564 €	41 137 564 €	0.5%	205 688 €	0% ¹¹	0 €	205 688 €
TOTAL	63 018 219 €	50 984 803 €	47 039 845 €	59 073 261 €	0.7%	435 147€	0.11%	63 828 €	371 320 €

¹¹ Even if not having an impact on the overall average of recoveries, DG FISMA detected and corrected an error of EUR 461 066 related to the contributions requested by the ESAs in 2019.

- (1) Differentiated for the relevant portfolio segments at a level which is lower than the DG total.
- (2) Payments made or equivalent, e.g. expenditure registered in the Commission's accounting system, accepted expenditure or cleared pre-financing. In any case, this means after the preventive (ex-ante) control measures have already been implemented earlier in the cycle. In all cases of Co-Delegations (Internal Rules Article 3), "payments made" are covered by the Delegated DGs. For Cross-Sub-Delegations (Internal Rules Article 12), they remain with the Delegating DGs.
- (3) New pre-financing actually paid by out the department itself during the financial year (i.e. excluding any pre-financing received as a transfer from another department). "Pre-financing" is covered as in the context of note 2.5.1 to the Commission annual accounts (i.e. excluding "Other advances to Member States" (note 2.5.2) which is covered on a purely payment-made basis). "Pre-financing paid/cleared" are always covered by the Delegated DGs, even for Cross-SubDelegations.
- (4) Pre-financing actually cleared during the financial year (i.e. their 'delta' in the Financial Year 'actuals', not their 'cut-off' based estimated 'consumption').
- (5) For the purpose of equivalence with the ECA's scope of the EC funds with potential exposure to legality & regularity errors (see the ECA's Annual Report methodological Annex 1.1), our concept of "relevant expenditure" includes the payments made, subtracts the new pre-financing paid out, and adds the previous pre-financing actually cleared during the FY. This is a separate and 'hybrid' concept, intentionally combining elements from the budgetary accounting and from the general ledger accounting.
- (6) In order to calculate the weighted Average Error Rate (AER) for the total relevant expenditure in the reporting year, the detected error rates have been used – or an equivalent. The average of 0.5% is used by DG FISMA as a conservative estimate because of the low risk type of expenditure of DG FISMA under procurement, administrative expenditure and payment of the annual contributions to the ESAs. The higher average error rate of 2% for grants is a conservative estimate aimed at covering the worst-case scenario.
- (7) Even though to some extent based on the 7 years historic Average of Recoveries and financial Corrections (ARC), which is the best available indication of the corrective capacity of the ex-post control systems implemented by the DG over the past years, the AOD has adjusted or replaced this historic average. Any ex-ante elements, one-off events, (partially) cancelled or waived Recovery Orders, and other factors from the past years that would no longer be relevant for current programmes (e.g. higher ex-post corrections of previously higher errors in earlier generations of grant programmes, current programmes with entirely ex-ante control systems) have been adjusted in order to come to the best and most conservative estimate of the ex-post future corrections to be applied to the reporting year's relevant expenditure for the current programmes. The AOD has differentiated the historic average of recoveries and financial corrections of the last 7 years (0.067%) to present a more refined indication of the corrective capacity of the ex-post control systems implemented by the DG under the various types of expenditure.: 0% for ESAs where it is conservatively assumed that no substantial recoveries or corrections are expected in the future, 0.2% for procurement (including administrative expenditure) and 0.5% for grants where the corrective capacity of the DG is higher due to the controls in place aimed at detecting the ineligibility of the costs claimed. These estimations are based on the average recoveries and corrections of the last 4 years in the various areas of expenditure concerned.
- (8) For some programmes with no set closure point (e.g. EAGF) and for some multiannual programmes for which corrections are still possible afterwards (e.g. EAFRD and ESIF), all corrections that remain possible are considered for this estimate.

2.1.1.3.2 Fraud prevention, detection and correction & safeguarding information¹²

DG FISMA has developed and implemented its own antifraud strategy since 2017, based on the methodology provided by OLAF. It is updated every 3 years. It was last updated in December 2020 taking into account the **new Commission anti-fraud strategy**¹³. Its implementation is monitored and reported to the management twice a year. All necessary actions have been implemented on time although a few measures, while initiated in 2020, will be further implemented in early 2021. DG FISMA did not receive and has no pending financial recommendations from OLAF.



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

- Finalisation of a detailed **fraud risk assessment** identifying the most important financial and reputational risks for the DG.
- Preparation and adoption of a **new antifraud strategy** aimed at contributing to the actions planned in the Commission antifraud strategy adopted in 2019. It focuses on the protection of sensitive information, relations with stakeholders and professional ethics of staff such as conflicts of interest and insider dealing as well as fraud in financial management.
- Use of a new **application to detect plagiarism** in the final reports of studies.
- Initiation of several measures under the new antifraud strategy such as 'ethics bulletins' for staff and mandatory ethics declarations that will be enforced as from 2021.
- **Absence of fraudulent cases** opened by OLAF in 2020.

DG FISMA organised a quiz on ethics to which many staff members participated allowing for the identification of very few specific areas where staff awareness will be further raised through follow-up action in 2021.

The **European Ombudsman** received a complaint on the composition of an expert group organised by DG FISMA and the potential situation of conflict of interest of its members. The European Ombudsman is carrying out an investigation on that matter and conclusions will be available in 2021.

DG FISMA continued to keep strict controls in place to **protect sensitive information** by raising awareness of staff, for example on cybersecurity trainings and cybersafe

¹² These two internal control objectives are integrated into DG FISMA antifraud strategy and reported jointly.

¹³ COM(2019) 196 final.

teleworking rules. It clarified the rules for sharing information in management meetings and monitored the correct marking of sensitive documents.¹⁴ Despite this, one leak of sensitive information was detected in 2020 and immediately reported for investigation to DG HR.

Given the low value and nature of DG FISMA’s expenditure, the exposure to fraud entailing financial risks is low compared to big spending programmes. On the basis of the available information, DG FISMA has reasonable assurance that the antifraud measures in place are effective and that neither the leak that occurred in 2020 nor the complaints received by the European Ombudsman reflect weaknesses in DG FISMA’s control system.

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

Time-to-award

In relation to procurement, all tenders were awarded within an **average of 139 days from the invitation to tender to the award** (40 days more than in 2019 and 22 more than in 2018). Despite the increase, this constitutes an efficient result considering the technical and operational complexities involved in the preparation of high quality tender documents. The increase recorded in 2020 is due to several factors including the need to give more time to tenderers to submit offers during the COVID-19 crisis and the necessity, in one specific case, to have more time to take a decision on the award.

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

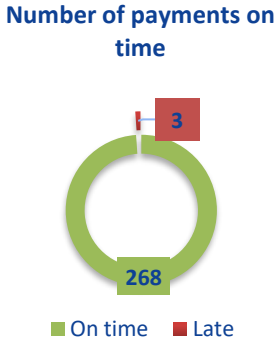
Time-to-invoice

DG FISMA registered incoming invoices within an average time of 1,6 days confirming the positive results of previous year.

Time-to-pay¹⁵

DG FISMA made **99% of its payments on time** consolidating the efficient work of previous years. The average time to make a payment in DG FISMA was 20.3 days¹⁶ which remains in line with 2019 (17.9), 2018 (16.9), 2017 (16.2), 2016 (16.5) and 2015 (17.1 days).

The slight increase is due to three late payments without



¹⁴ DG FISMA does not report separately on the internal control objective ‘Safeguarding assets and information’ since the controls linked to the protection of sensitive information are integrated into its antifraud strategy and no major assets are managed by DG FISMA.

¹⁵ Article 116.1 of the Financial Regulation. See also Table 6 of Annex 3 and Annex 4.

¹⁶ Gross time including suspensions while average net payment time was 16.3 days.

which the average time-to-pay would decrease to 16.7 days. Since two of these three payments were also of a much higher amount compared to the average amount of DG FISMA payments, DG FISMA could only pay on time 91% of the total amount of payments made. These payments were executed late because of unforeseen delays in the bank transfer¹⁷. The delay does not therefore reflect a weakness in DG FISMA processes.

Timely Payments	DG Score	EC Score
	91%	99%

Budget forecast and execution¹⁸

DG FISMA implemented 100% of its commitment and payment appropriations expiring in 2020¹⁹ which confirms an improvement compared to last year.



As in previous years, the efficient budget execution of DG FISMA is also demonstrated by the excellent results in terms of decommitments made on time (100%) and budgetary forecasts (100%)²⁰.

2.1.1.5 Economy = the estimated cost of controls

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

The **overall costs of controls** related to all DG FISMA expenditure in both direct and indirect management corresponded to **3% of the payments made**. The overall costs of controls remain stable compared to 2019 (2.9%). The slight increase is mainly linked to direct management and due to the specific circumstances explained below. The overall costs of control of DG FISMA remain below 5% of DG FISMA expenditure in line with the objectives established in the Management Plan. The COVID-19 crisis implied the re-

¹⁷ DG FISMA authorised these payments 5 days ahead of the payment deadline.
¹⁸ See also Table 1-2 of Annex 3 and Annex 4.
¹⁹ Or 95% of all payment appropriations (75% in 2019) and 98% of all commitment appropriations (76% in 2019).
²⁰ See Annex 4 for the details.

direction of some controls in administrative expenditure (e.g. organisation of virtual meetings instead of physical meetings, absence of missions). Even if not visible in the overall costs of controls, which remain stable, this had an impact on the costs of controls in this specific area as explained below.

Total ratio			
Description	Type of expenditure	Year 2019	Year 2020
Total costs of controls/ value of payments made ²¹	Operational and administrative expenditure	2.9%	3%
	Only operational expenditure	2.2%	2.3%

The **costs of control related to direct management** (grants, procurement and administrative expenditure) represent **7.3% of the total payments made** in this area. This indicator decreases significantly if only operational expenditure is considered for the calculation (5.2%) but remains higher compared to 2019. The reason is linked to the additional controls required in 2020: to follow up several parliamentary questions and an Ombudsman investigation on the award of a contract; to prepare the evaluation of the Union programme to support specific activities enhancing the involvement of consumers and other financial services end-users in Union policy-making in the area of financial services²²; and to prepare the ground for a swift implementation of the Single Market Programme in 2021 as soon as possible after the Regulation is adopted by the co-legislators. It is also due to the decrease in administrative expenditure²³.

Direct management - Operational and administrative expenditure	
Year 2019	Year 2020

²¹ For the cost calculation of its overall indicator DG FISMA used as denominator the amount of total payments mentioned in table 2 of Annex 3 plus the amount of administrative expenditure paid by PMO and DG HR but for which controls are also taking place in DG FISMA (i.e. missions, external and expert group meetings, committee meetings, trainings). In the nominator the costs include not only costs of staff involved in financial management but also costs of staff carrying our horizontal tasks not attributable to direct management, indirect management or indirect management specifically: budget and accounting, and - if linked to the policy or operational dimension of spending programmes - the costs of evaluations, internal control, antifraud, audits, financial procedures and planning activities. For more detailed information on the calculation method used, refer to Annex 7.

²² Regulation (EU) 2017/826 of the European Parliament and of the Council of 17 May 2017 on establishing a Union programme to support specific activities enhancing the involvement of consumers and other financial services end-users in Union policy-making in the area of financial services for the period of 2017-2020. OJ L 129, 19.5.2017, p. 17-23.

²³ Only a limited number of missions and physical meetings were organised in 2020 because of COVID-19 restrictions (expert groups, committee meetings and conferences).

6.4%	7.3%
Direct management - Operational expenditure only	
4,6%	5.2%

At the level of DG FISMA, the **overall costs of control for indirect management** represented **1,3% of the contributions paid** to the agencies in 2020 in line with last year's result (1,4%).

2.1.1.6 Conclusion on the cost-effectiveness of controls

Based on the most relevant key indicators and control results mentioned above and in Annex 7, DG FISMA has assessed the effectiveness, efficiency and economy of its control system and reached a **positive conclusion on the cost-effectiveness of the controls** for which it is responsible.

The main drivers of DG FISMA's cost of controls are linked to basic checks on a high number of low value transactions (e.g. in administrative expenditure and lower value contracts) and to operations such as the preparation of procurement procedures for studies, including drafting of tender specifications²⁴. For this reason the costs of controls in procurement are proportionally higher than in grants and indirect management.

In addition, in 2020 DG FISMA continued to implement **initiatives to improve efficiency in financial management** by using electronic workflows for all its financial circuits including Qualified Electronic Signatures to sign contracts and grants. DG FISMA also put in place a shared platform to better monitor the use of resources in certain areas linked to administrative expenditure (e.g. meeting planner). The development of a platform to facilitate the monitoring of contracts is also progressing.

2.1.2 Audit observations and recommendations

This section sets out the observations, opinions and conclusions reported by auditors – including the limited conclusion of the Internal Auditor on the state of internal control. Summaries of the management measures taken in response to the audit recommendations are also included, together with an assessment of the likely material impact of the findings on the achievement of the internal control objectives, and therefore on management's assurance.

2.1.2.1 Internal Audit Service (IAS)

In 2020, the IAS carried out a limited review on the implementation of the new internal control framework in DG FISMA. The IAS did not identify any important findings and only

²⁴ See Annex 7 for more details on the costs of controls per control stage and the methodology used for their calculation.

noted an ‘issue for consideration’ that DG FISMA has already implemented. DG FISMA also worked to finalise the implementation of the recommendations linked to the previous IAS audit on the effectiveness of DG FISMA’s performance management system carried out in 2018. Some recommendations linked to the IAS audit of 2017 on the production process and quality of statistics not produced by Eurostat could not be formally closed in 2020 as this is awaiting the finalisation of corporate rules. None of these recommendations was ‘critical’ or ‘very important’.

Based on all work undertaken by the Internal Audit Service in the period 2018-2023, namely an audit on the effectiveness and efficiency of DG FISMA’s performance management system (2018) and a limited review on the implementation of the new internal control framework (2020) and taking into account that

- management has accepted all the recommendations issued in 2018-2020;
- management has adopted action plans to implement all the accepted recommendations and that the IAS considers that these action plans are adequate to address the residual risks identified by the auditors;
- the implementation of these action plans is monitored through reports by management and follow-up audits by the IAS;

the Internal Audit Service concluded that the **internal control systems in place for the audited processes are effective**.

2.1.2.2 European Court of Auditors (ECA)

The European Court of Auditors finalised the following audits that involved DG FISMA, none of them linked to financial management or internal control²⁵:

- Performance audit on the implementation of the Capital Markets Union (CMU) Action Plan.
- Annual audit on contingent liabilities arising because of the implementation of the Single Resolution Mechanism (SRM) Regulation.
- Landscape review on the resilience of the EU’s financial sector.
- Performance audit “Are EU Agencies performance-driven?” (main auditee: DG BUDG).
- Performance audit on state aid for banks (main auditee: DG COMP).
- Single Resolution Mechanism’s readiness to resolve banks (main auditee: SRB, the report is finalised and about to be published).

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

More audits involving DG FISMA were on-going in 2020, none linked to financial management or internal control. See a detailed list of these on-going audits in Annex 7.

²⁵ For information on actions taken to address *policy performance* related recommendations from Special Reports by the European Court of Auditors, see section 1.

2.1.3 Assessment of the effectiveness of internal control systems

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

DG FISMA has put in place an organisational structure and internal control systems which are suited to achieving its policy and internal control objectives in accordance with the internal control principles. DG FISMA also pays due regard to the risks associated with the environment in which it operates.

DG FISMA has assessed its internal control system during the reporting year and has concluded that it is effective and the **components and principles are present and functioning well overall**, but small improvements are needed namely in relation to (1) continue boosting awareness of staff on a few very specific ethics topics to maintain a high level of awareness, (2) improving the effective use of DG FISMA's IT tool for planning resources, and (3) increasing staff resources for data protection.

The above areas of improvement are not linked to critical or major deficiencies and do not entail risks for the functioning of the internal control principles and components to which they are linked. They are balanced by many strengths, including the positive results of the Financial Scorecard in Annex 4, and their overall impact on the DG FISMA control framework is minor. More details on the process related to the annual internal control assessment and overall functioning of DG FISMA internal control system are available in Annex 8.

2.1.4 Conclusions on the assurance

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

- DG FISMA's **controls on financial operations** provide sufficient assurance that risks related to the legality and regularity of the operations are properly managed. Controls are sufficient and proportionate to the risks. While the costs of controls have increased compared to the previous year this is due to well-justified circumstances and controls remain cost-effective. They have allowed correcting errors and ensured an efficient implementation of the budget. They have also brought important qualitative benefits.
- **No legal proceedings** were initiated by tenderers/contractors/beneficiaries and divergent views on few cases were settled without leading to formal litigation cases. The complaints received by the Ombudsman in 2020 do not have an impact on the assurance.
- The **IAS's conclusion on the state of control for 2020** is positive also in relation to the implementation of the new internal control framework in DG FISMA, which is a key element to build assurance. The ECA did not raise observations on DG FISMA financial management and internal control system.

- DG FISMA **assessment of the presence and functioning of its internal control framework** was comprehensive and did not detect deficiencies having an impact on assurance. The minor/moderate deficiencies identified were accompanied by adequate remedial measures.
- DG FISMA initiated with its **new antifraud strategy** additional control measures to prevent, detect and correct fraud and irregularities, protect sensitive information and ensure a high level of staff awareness on their ethics obligations.
- The **controls on the ESAs** are proportionate and limited to DG FISMA's governance remit. They are sufficient and appropriate to ensure the legality and regularity of the payment of the annual contribution to them and the efficiency of the annual budget programming.
- The assessment of the elements above is corroborated when needed by **adequate evidence** (reports to managers or data extracted from corporate IT tools). Deficiencies and deviations from targets are transparently reported and explained.

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 view²⁶.

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

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

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

Brussels, 26/03/2021

(Signed)

John BERRIGAN

²⁶True and fair in this context means a reliable, complete and correct view on the state of affairs in the DG.

2.2 Modern and efficient administration – other aspects

For an extensive reporting on the indicators linked to **Human resource management**, **Digital transformation and information management** and **Sound environmental management**, please refer to Annex 9.

2.2.1 Human resource management

In 2020, DG FISMA maintained its efforts to employ a competent and engaged workforce and contributed to gender equality to effectively deliver on the Commission's priorities and core business. Responsibility for **sanctions** (a sensitive file and part of the President's objective to increase our economic sovereignty) and for **financial crime and anti-money laundering** (also high on the political agenda) were transferred to DG FISMA respectively from FPI and DG JUST on 01.01.2020, increasing the need for additional resources in specific policy areas. DG FISMA paid special attention to the integration of these teams by offering the new colleagues a dedicated newcomers training in January 2020 as well as dedicated meetings with the Director General with all new colleagues. Furthermore, both units presented their work to the rest of the DG in the form of two separate 90 minutes knowledge hours in the first half of 2021. This complemented specific action at Directorate level to ensure their full integration.

Despite the radical change in most HR processes due to the COVID-19 pandemic, DG FISMA has managed to fill all posts and apply the College decisions on additional resource allocations. The DG has also maintained its efforts to maximise its potential with project teams. In relation to **Learning & Development** DG FISMA adapted its training offer to the new virtual working environment linked to the COVID-19 pandemic. DG FISMA also continued its efforts to ensure **gender equality** by ensuring that an in-house pool of female talents is maintained.

DG FISMA measured engagement indicators and staff morale. To improve information flows within the DG and ensure cohesiveness and a sense of unity of the DG, efforts around internal communication increased substantially. Closer coordination between the **HR BC** and Unit A3 in charge of **Communication** was an important element/improvement to streamline processes and communication in 2020. The results of an internal survey carried out early 2021 confirmed that staff still perceives DG FISMA as an excellent place to work. The results of the survey also showed that the efforts of DG FISMA to tackle the COVID-19 crisis and its impact on staff have been highly appreciated.

Successful actions such as AST breakfasts and Knowledge hours were maintained and new actions to palliate to the shortcomings of working remote were put in place ("virtual coffees" with the DG, or randomised on 1-to-1, relaunch of "mentor & buddy" programme, extra attention to mental health of staff, enhanced "on-boarding experience", All Staff meetings).

All these new elements will be integrated in the **local HR Strategy**, scheduled for Q2 of 2021.

2.2.2. Digital transformation and information management

Despite COVID-19, the realisation of the **digital modernisation** plan is advancing. The “Digital by default”, the “Once-only”, the “Interoperability”, the “Security”, the “User centric” and the “Data driven” principles have been implemented delivering:

- New SharePoint sites to each unit and directorate as well as developing customized features that improve the efficiency and effectiveness of many units;
- New integration with EU Search for the meetings management system ‘EMT’ and the legislation repository ‘KOEL’;
- New building block components of ARTEMIS;
- The reengineered versions of EMT and the corporate briefings and speeches management tool, BASIS.

By facilitating co-authoring, access, sharing and accelerated retrieval of information for example by using a DG-wide taxonomy, the above systems directly contribute to improving information and **knowledge management** within the DG. In that context DG FISMA also pursued its work on the automatic tagging of documents by machine learning to reduce the need for manual tagging.

While progress has been made in the course of 2020, additional efforts are needed to ensure a timely update of the security plans of the new IT systems transferred to DG FISMA in 2020.

DG FISMA also continued to apply high standards of **document management**, in line with the eDomec rules (Electronic Archiving and Document Management in the European Commission). DG FISMA put particular emphasis on the correct use of markings and document security settings to protect sensitive information and avoid leaks.

In relation to its key data assets DG FISMA ensured compliance with the **data governance** framework of the Commission. The key data assets of DG FISMA were mapped and are compliant with the principles of such framework. Due to license restrictions, the data assets of DG FISMA cannot be shared outside the DG.

The procedures related to **data protection** are described in detail and accessible to all staff. Due to a lack of resources, only one training on data protection was addressed to Heads of Units in 2020. The general training addressed to all staff was postponed to 2021. Several records were validated in 2020 for the IT systems EMT and MICE and for ‘sanctions’. Data protection was a very work-intensive file in 2020 and more resources will be needed in the future to raise awareness about the IDPR (Institutions Data Protection Regulation) rules and efficiently enforce the Commission’s Data Protection Action Plan in the DG. A data breach was notified in the course of 2020 and was timely addressed and reported to the EDPS. DG FISMA has no external processor agreements. Furthermore, DG FISMA will continue to follow issues related to the “Schrems II” judgement concerning transfer of personal data to third countries.

2.2.3 Sound environmental management

In 2020, DG FISMA continued contributing to an environmentally friendly Commission by pursuing the objectives in its Strategic Plan and the Commission's EMAS action plan to become carbon neutral by 2030.

DG FISMA focused its actions on three main areas in order to **reduce its CO2 footprint**:

- Promoting **alternative ways of commuting** by supporting the corporate campaign on Velomai, including promotion of trainings and tips.
- **Banning flights for short distance missions** (less than 500km) of staff and by preparing draft guidelines on how to organise sustainable events that will be adopted and integrated into the future corporate guidelines under preparation.
- Encouraging **waste reduction and sorting** by installing sorting stations and by promoting good reflexes among staff. Due to the teleworking arrangements linked to COVID-19 these promotion activities have been focused on **digital waste** (bringing down the number of active printers from 145 to 20).
- Saving energy by **closing the heating of the building** in the last months of the year.

DG FISMA postponed the planned activities to raise awareness on sustainable food consumption due to the closure of all canteens at the Commission due to the COVID-19 lock-down and the delayed entry into force of the new catering contract of the Commission to which the actions planned by DG FISMA were strictly linked.