1. Basic Information

1.1 Désirée Number: RO-0005.03
1.2 Title: SECURITIES MARKET REGULATION
1.3 Sector: Financial sector
1.4 Twinning component: RO2000/IB/FI/01
   Improvement of the administrative capacity of the National Commission of Securities (CNVM) and the completion of the legal framework for securities supervision.
1.5 Location: Romania

2. Objectives

2.1 Wider Objectives:

The overall objective of this project is to strengthen the securities market supervision and the relevant regulatory framework to support the expansion and diversification of economic activity. This will contribute to preparing the Romanian economy for participation in the internal market.

2.2 Immediate Objective:

- Undertake an operational audit for the Romanian National Securities Commission (CNVM), as basis for its medium term institutional development plan.
- Prepare and agree with key stakeholders a medium term Action Plan (Blueprint) for the development of Romanian capital markets, with a view to future participation of Romania in the EU internal market.
- Harmonize the CNVM regulations with the European Directives.
- Review the regulatory and supervisory structure of investment services.
- Develop the enforcement capability of the supervisory body in order to enhance the functioning of the market.

The first objective will be implemented through a technical assistance programme.

The second, third, fourth, and fifth objectives are to be achieved via a twinning.

The fifth objective will also be implemented through an investment project, complemented by technical assistance.

2.3 Accession Partnership and NPAA priority:

This project is strictly following the NPAA’s institutional objectives (vol II-Pag. 123): consolidation of the regulation and supervision capacities of CNVM:
- Regulations modification after approval of the new law on securities and regulated markets;
- Training programs for CNVM staff;
Endow CNVM with equipment;
New financial instruments to be traded on the market.

2.4 Contribution to National Development Plan
- not applicable

2.5 Cross Border Impact
- not applicable

3. Description

3.1 Background and justification:
This project aims at enabling the securities market to meet the requirements of the Single Market of financial services, to prepare the ground for the diversification and modernization of investment services and to increase their role in the mobilization and a better allocation of resources, while furthering the growth of the real sector of the national economy.

It starts from the assumption that in this area a number of strengths exist: a relatively well developed legal and institutional infrastructure, transactions based on dematerialized securities, electronic trading system, autonomous depository, clearing and registry institutions. But the capital market is still underdeveloped quantitatively and qualitatively, the range of instruments and investment services being confined mostly to transactions in Mass Privatization Process shares. The legal and institutional framework that has mainly been developed in connection with the Mass Privatization Process, still contains loopholes and inconsistencies. It needs to be revised in an integrated approach taking into account the results of the financial revolution and the basic trends prevailing on European markets and with the view to increase the market efficiency and integrity.

In the Romanian securities industry a critical mass has been reached, which makes it possible to achieve rapid advances to turn the investment services into a basic tool for economic recovery and the growth of the real sector.

The best way to meet this challenge is to prepare a medium-term Action Plan (Blueprint) for the development of CNVM on one hand and of the Romanian capital markets on the other hand. The most appropriate way for implementing this medium-term development plan is to resort to a twinning arrangement. The detailed assessment work and the design of the appropriate policy measures will lie on a more solid basis if conducted by experts from a counterpart body from the EU and if benefiting from its support.

The twinning will involve a thorough reassessment of the regulatory and supervisory structure of the securities market and steps to upgrade the enforcement capability of the supervisory body by means of more efficient procedures, better trained inspectors and compliance officers, and a modernized information management system. The remote electronic surveillance system will be developed and upgraded.
3.2 Linked activities:

The project will build on findings and results of the PHARE assistance program carried out in 1998-1999 focussed on preparing new drafts of the revised securities law and UCITS law and on upgrading CNVM’s enforcement capabilities.

In 1994-1998 the British Know How Fund and the Canadian International development Agency (CIDA) provided technical assistance to CNVM and the Romanian securities market, on a bilateral basis.

3.3 Results:

By the end of the project, CNVM expects:

1. To have a medium-term institutional development plan of CNVM, based on an operational audit of CNVM;
2. To have developed and agreed with the key stakeholders a medium term Action Plan (Blueprint) for the development of Romanian capital markets, with the view to future participation in the EU internal market;
3. To have in place an adequately revised regulation system, in line with the relevant EU acquis;
4. To have in place a revised regulatory and supervisory structure with enhanced enforcement capabilities, meeting the standards required for joining the EU internal market.
5. To have assessed the feasibility of and to have developed a detailed action plan for achieving the legal and institutional prerequisites to accommodate in Romania new financial instruments such as: trade in derivatives, issuing municipal bonds, mortgage-backed and asset-backed securities;
6. To have assessed the feasibility of and have prepared a detailed action plan for accommodating trading in commodities within CNVM’s mission;
7. to have designed and implemented an adequate electronic surveillance system and an electronic Management Information System (MIS) for CNVM.

The twinning component specifically will achieve the following guaranteed results:

- A medium-term Action Plan (Blueprint) for the development of Romanian capital markets.
- A report on the review of the regulatory and supervisory structure of the investment services, in particular the status of harmonization with EU requirements; the report will have the endorsement of both the PAA and CNVM; start of the implementation of measures to redress the deficits identified in the report
- Report on the improvement of CNVM’s supervisory procedures; the report will have the endorsement of both the PAA and CNVM; start of the implementation of the reports recommendations; start of implementation of measures to address the deficits identified in the report
- Preparation of an enforcement manual
- CNVM inspectors and law officers trained
- Trainers from the CNVM trained
All this will further increase the ability of the Romanian securities market to participate in the Single Market of financial services, its role in mobilizing resources for the real sector of the economy and in attracting foreign resources. An overall improvement in the functioning of the market (through stimulating all stakeholders in the capital markets to respect the law) will result in an enhanced confidence of investors and a greater role of the securities market as an engine of economic growth.

3.4 Activities:

A. Technical assistance: Operational Audit of Romanian National Securities Commission (CNVM)

CNVM will receive technical assistance to undertake a thorough Operational Audit of its capacity to fulfil its functions, and to prepare its medium-term institutional development plan.

The results of this programme will be: an Operational Audit and CNVM’s Medium Term Institutional Development Plan, developed by CNVM’s management, with technical assistance provided under the project.

The budget of the technical assistance project will be € 200,000.

B. Twinning: Assistance to CNVM to improve its administrative capacity and complete the legal framework for securities supervision

The twinning will contain the following activities:

- review the regulatory and supervisory structure of the investment services, in particular assess the status of harmonization with EU requirements;
- assistance for the preparation of an enforcement manual;
- advise on the improvement of CNVM’s supervisory procedures;
- provide training for CNVM inspectors and law compliance officers;
- provide training for trainers from CNVM;
- prepare and agree with key stakeholder (e.g. actors of Romanian capital markets, decision-makers in parliament, relevant associations of securities dealers, etc.) of a medium term Action Plan for the development of Romanian capital markets.

The budget for the twinning will be € 1,050,000.

The project will require one long-term advisor for 16 months. The long-term advisor should be a high-level official from an institution in a Member State dealing with securities legislation or the supervision of financial markets, for example a Ministry of Finance, a body responsible for the supervision of securities markets or a National Bank. The long-term advisor should have work experience in the field of at least 10 years. The long-term advisor will mainly deal with project management, improvement of CNVM’s supervisory procedures and updating the enforcement manual.

The long-term advisor will be supported by short term pre-accession advisors, who will mainly deal with the following issues:
developing the CNVM regulations in line with the relevant EU Directives (This could require 1 short term advisor for approximately 2 months); designing measures for new financial instruments to be traded on the market (This could require 1 short-term advisor for approximately 6 months); -conducting training programs for CNVM staff and compliance officers from CNVM constituencies (This could require 3 short term advisors for approximately 2 months each).

The short-term advisers should have a professional experience in the field of minimum 10 years.

C. Investment Support for Electronic Surveillance System and Electronic Management Information System: € 750,000

These systems will help to improve CNVM’s enforcement capacity. This project component covers investment support estimated at € 525,000 and related technical assistance, estimated at € 225,000. The Phare technical assistance will cover the whole implementation period, and will provide assistance for completing the investment project.

The whole Phare project involves an amount of € 2 million. The CNVM is prepared to provide the required co-financing to supplement the investment support. It relays, in this respect on its own resources, but efforts will be made to attract resources from national public funds.

4. Institutional Framework

CNVM, the Romanian National Securities Commission, is the supervisory authority of the securities market. It was established in 1994 as an autonomous administrative body, reporting to the Romanian Parliament.

The legal framework is contained in Law 52/1994 on securities and Stock Exchanges and Law 83 regarding the establishment and operation of open-end investment funds and investment companies as financial intermediaries. Updated drafts of these laws were submitted to the Parliament in 1998.

On the Bucharest Stock Exchange a number of 131 companies are listed. RASDAQ is a quote driven market, established as a secondary market for the Mass Privatization Process shares. All traded securities are dematerialized. Registry and depository functions are performed by independent bodies.

There 169 authorized investment companies, 23 mutual funds (22 open end and 1 close end fund) on the Romanian securities market.

CNVM is a self-financing body, with revenues consisting of fees that are raised from its constituencies.

The main prevailing constraint consists in the lack of an adequate office space, severely limiting the staff number increase and adversely affecting the working conditions.
This Institution Building Twinning project could lead to changes in the prevailing institutional framework to accommodate the trade in derivatives and to take into account the trend to integration of financial services.

5. Detailed Budget

<table>
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<th>Phare Support</th>
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6. Implementation Arrangements

6.1 Implementing Agency
The programme Implementing Agency will be the CFCU. The Implementing Authority will be the Romanian National Commission for Securities. The PAO will be Prof. Dr. Stefan Boboc, Chairman, Romanian National Securities Commission, 21 Calea Grivitei, Sector 1, Bucharest-78101, ROMANIA, Tel.: (401) 312-4200, Fax: (401) 312-4201.

6.2 Twinning
CNVM envisages twinning arrangements with the competent authorities for the investment services area. Exchange of information and know-how with the twinning partner in form of study-tours, staff exchanges, joint seminars with participation of management members is foreseen.

Contact person for the twinning will be Prof. Dr. Stefan Boboc, Chairman of CNVM, address: 21 Calea Grivitei, Sector 1, Bucharest-78101, ROMANIA, Tel.: (401) 312-4200, Fax: (401) 312-4201.

6.3 Non-standard aspects
Non-standard procedures are not foreseen.

6.4 Contracts
The project envisages signing 3 contracts:
1 for technical assistance for operational audit: € 200 000.
1 for twinning: € 1 050 000:
1 for investment support: Electronic Surveillance System and Electronic Management Information System - € 750,000 in total, out of which up to € 225,000 are intended for technical assistance related to the investment
support. The project will also include Phare advisory support, for the whole implementation period, to provide assistance for completing the investment support project.

7. Implementation Schedule

7.1. For the twinning component:
project fiches distributed to Member States: June 2000
project start: January 2001
end of project: June 2002

7.2. For the other project components:
Start of tendering: first half 2001, the ToR’s and project specifications will be finalized by the end of 2000.
Start of project activities: Second half of 2001
Project Completion: December 2002

8. Equal Opportunity
The project will ensure equal participation by women and men. Women’s participation will be measured by recording (i) gender breakdown of trainees (ii) emphasizing equal opportunities aspects inside CNVM.

9. Environment
No environmental changes will be induced by the implementation of this investment support project.

10. Rates of return
These indicators are not relevant for the two investment projects. These projects after been completed will not induce profit.

11. Investment criteria

11.1 Catalytic effect:
The PHARE investment projects will catalyze the process of setting up the electronic surveillance system and the electronic information management system (MIS) of CNVM. In the absence of this program, the CNVM’s resources are insufficient to develop such systems.

11.2 Cofinancing:
This investment project will be co-financed by CNVM’s resources.

11.3 Additionality:
The investment support for the electronic surveillance system and for the electronic information management system involve also assistance from PHARE provided by one long-term advisor who will assist CNVM for the whole implementation period.

11.4 Project readiness and Size:
Pre-feasibility studies have been prepared by the CNVM’s Office for Capital market Surveillance and Directorate for IT and Capital Market Analysis.
The total value of the investment support for this project, received from PHARE funds, is € 700,000 in point 5.

11.5 **Sustainability:**
The future maintenance and operating costs of these investments will be covered from CNVM own revenues.

11.6 **Compliance with state aids provisions**
All the state aids provisions of the Europe Agreement will be followed and complied with.

11.7 **Contribution to National Development Plan**
Not applicable.

12. **Conditionality and sequencing**

Projects implemented through twinning require the full commitment and participation of the senior management of the beneficiary institution. In addition to providing the twinning partner with adequate staff and other resources to operate effectively, the senior management must be fully involved in the development and implementation of the policies and institutional change required delivering the project results.

Apart from this condition applying to all twinnings there is no strict conditionality for this specific project to start and to proceed. However, for it to be successful, it takes a number of prerequisites, such as:

- CNVM provides the co-financing as required and observes the deadlines contained in the Action Plan;
- Twinning arrangements are concluded conforming to the schedule and ToRs.
- CNVM gets the support of its constituencies;
- Efforts are undertaken in Parliament to achieve a rapid adoption of the pending draft laws on securities markets.

**ANNEXES TO PROJECT FICHE**

1. Logical framework matrix
2. Detailed implementation chart
3. Contracting and disbursement schedule by quarter for full duration of programme (including disbursement period)
<table>
<thead>
<tr>
<th>LOGFRAME PLANNING MATRIX</th>
<th>Programme name: Romanian National Securities Commission-PHARE 2000</th>
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**Wider Objective**

The overall objective of this project is to strengthen the securities market regulatory framework thus supporting the expansion and diversification of economic activity. This will contribute to preparing the Romanian economy for participation in the EU internal market.

**Indicators of Achievement***

- Legal framework harmonised
- Appropriate structures and mechanisms in place
- A competent authority better structured and equipped to fulfil its responsibilities

**How, When and By Whom Indicators Will Be Measured**

Assessment by CNVM of the technical assistance results, end of 2003.

**Assumptions and Risks**

- An appropriate office space available by the end of 2002 and the risk of CNVM failing to get it
- Adequate human resources available.
- The twinning arrangements are successfully concluded and functioning. CNVM provides adequate support to the project implementation
- Experts provided according to the ToR
- Adequate co-financing (office space, staff, technical facilities) provided, as agreed.

**Immediate Objectives**

1. Undertake an operational audit for CNVM, as basis for its medium term institutional development plan
2. Prepare and agree with key stakeholders a medium term Action Plan (Blueprint) for the development of Romanian capital markets, with a view to future participation of Romania in the internal market

**Indicators of Achievement***

Progress achieved in:
- The harmonisation process;
- Developing the prerequisites of enhanced enforcement capabilities;
- The development of legal and institutional infrastructure of the investment services market;

**How, When and By Whom Indicators Will Be Measured**

Project report submitted every six months and discussed with the CNVM management

**Assumptions and Risks**

Same as above.
3. Harmonize CNVM regulations with EU Directives  
4. Review the regulatory and supervisory structure related to investment services  
5. Develop the enforcement capability of the supervisory body, in order to enhance the functioning of the market

<table>
<thead>
<tr>
<th>Outputs</th>
<th>Indicators of Achievement*</th>
<th>How, When and By Whom Indicators Will Be Measured</th>
<th>Assumptions and Risks</th>
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| By the end of the project, CNVM expects:  
• To have a medium-term institutional development plan of CNVM, based on an operational audit of CNVM  
• To have developed and agreed with the key stakeholders a medium term action plan (Blueprint) for the development of Romanian capital markets, with the view of future joining the EU internal market  
• To have in place an adequately revised regulation system, in line with the relevant EU acquis  
• To have in place a revised regulatory and supervisory structure with enhanced enforcement capabilities, meeting the standards required for joining the EU internal market  
• To have assessed the feasibility of and to have developed a detailed | 1. Report on operational audit of CNVM (including detailed implementation plan) prepared and discussed with CNVM management;  
2. Drafts of the regulations: prepared – discussed and agreed with CNVM management – implemented  
3. Implementation of the medium-term action plan (adequate staffing, training, etc.)  
4. Policy measures: prepared - discussed and agreed with CNVM management – implemented | Project reports submitted every six months and discussed with the CNVM management. | • Same as above. |
**Action Plan for Achieving the Legal and Institutional Prerequisites to Accommodate in Romania New Financial Instruments such as:**

- To have assessed the feasibility and have prepared a detailed action plan for accommodating trading of commodities within CNVM's mission
- To have designed and implemented an adequate electronic surveillance system and an electronic management information system for CNVM

**Inputs**

1. One long term advisers to CNVM;
2. Short term advisers on specific fields:
   - Developing the CNVM regulations in line with the relevant EU Directives requirements;
   - Reviewing the regulatory and supervisory structures of the investment services area in line with the European practices;
   - Designing measures to upgrade enforcement procedures and updating the enforcement manual;
   - Developing the CNVM regulations regarding the Annual progress reports, agreed by the CNVM management, stating:
     - The results of the harmonisation process,
     - The extent to which various other targets have been reached.

**Project Reports**

- Project reports submitted every six months and discussed with the CNVM management.
- Same as above.
- Commodities activity;
  - Conducting training programs;
  - Information technology.

3. Investment support to upgrade the information management and the remote electronic surveillance systems.

4. Long-term advisor who will provide assistance for the investment support project.

* Must be **quantified** and **measurable**
### DETAILED TIME IMPLEMENTATION CHART FOR PROJECT NUMBER RO-0005-03

(Romanian National Securities Commission – PHARE 2000)

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D = Design  
C = Contracting  
I = Implementation
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NB: 1. All contracting should normally be completed within 6-12 months and must be completed within 24 months of signature of the FM.

2. All disbursements must be completed within 36 months of signature of the FM.