



Twinning Fiche

Project title: Implementing Effective Supervision over Non-bank Financial Institutions

Beneficiary administration: National Bank of Ukraine

Twinning Reference: UA 23 NDICI FI 01 24

Publication notice reference: EuropeAid/180683/DD/ACT/UA

EU funded project

TWINNING TOOL

LIST OF ABBREVIATIONS

AA	EU-Ukraine Association Agreement
DCFTA	Deep and Comprehensive Free Trade Area
NBU	National Bank of Ukraine
Financial Sector Strategy	Strategy of Ukrainian Financial Sector Development, approved by the Financial Stability Council on 19 July 2023 and by NBU Board Decision No. 299 dated 29 August 2023
SRM	System of risk management
NBFS	Nonbank financial services
NBFI	Nonbank financial institution
Regulation	NBU Regulation
NBFG	Nonbank financial group
COSO	The Committee of Sponsoring Organizations of the Treadway Commission

BASIC INFORMATION

- 1.1 **Programme:** 2023/045-101 NDICI-GEO-NEAR/2023/ACT-61605 EU Support to Recovery and Reforms
- 1.2 **Twining Sector:** Finance, Internal market and economic criteria (FI)
- 1.3 **EU funded budget:** *EUR 1.5 million*
- 1.4 **Sustainable Development Goals (SDGs):** SDG8 “Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all”, SDG1 “End poverty in all its forms everywhere”

2. OBJECTIVES

2.1 Overall Objective:

The overall objective is to develop stable, secure and efficient financial services markets in Ukraine to provide financial resources to the national economy and support the country’s post-war recovery, economic and social development and integration into the global financial environment.

2.2 Specific objectives:

Implementation of supervisory assessment of NBFIs in line with EU standards and development of the economic ratios model for NBFIs in Ukraine.

2.3 The elements targeted in strategic documents i.e. National Development Plan / Cooperation agreement / Association agreement / Sector reform strategy and related Action plans:

The EU-Ukraine Association Agreement, including the Deep and Comprehensive Free Trade Area, is the strategic document to be considered in the context of this project preparation. The AA/DCFTA sets out the foundation for enhanced economic cooperation between EU and Ukraine. The NBU as the *central bank* of Ukraine is responsible for the implementation of the AA/DCFTA provisions, including *the Chapter 6* “Establishment, trade in services and electronic commerce” (Sub-section 6 “Financial services”), *Chapter 7* “Current payments and movement of capital” and the Appendix XVII-2 “Rules applicable to financial services”.

Draft updated Appendix XVII-2, reflecting the developments in the EU Law since the AA/DCFTA had been negotiated, was proposed by the EU side, considered by relevant Ukrainian authorities and sent to the EU side for further approval. Currently, at the EU side request, the Table with the list of EU acquis in the financial sphere is being filled in for further updating of Appendix XVII-2 to the EU-Ukraine Association Agreement.

The AA/DCFTA, the Government's Action Plan on the EU-Ukraine Association Agreement implementation, and the NBU's Plan for the AA implementation and legal approximation include, among other priorities, Core Insurance Principles of the International Association of Insurance Supervision; Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II); Directive 2002/87/EC of the European Parliament and of the Council of 16 December 2002 on the supplementary supervision of credit institutions, insurance undertakings and investment firms in a financial conglomerate and amending Council Directives 73/239/EEC, 79/267/EEC, 92/49/EEC, 92/96/EEC, 93/6/EEC and 93/22/EEC, and Directives 98/78/EC and 2000/12/EC of the European Parliament and of the Council; Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on

access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms; and Regulation (EU) 575/2013 on prudential requirements for credit institutions and investment firms.

The implementation of the above-mentioned Directives and Regulation are also included in the Financial Sector Strategy¹, in line with which the NBU is continuously working on introducing international and the EU rules.

The highly important tasks for Ukraine are included in the Memorandum of Economic and Financial Policies between Ukraine and the International Monetary Fund dated 24 March 2023 (updated 01 December 2023), which identifies key structural reforms aimed at growth and European integration, which should be implemented in Ukraine, including plans for recovery and further development of the financial system. In particular, paragraph 56 of the MEFP refers to the renewal of the Financial Sector Strategy, while paragraph 63 of the MEFP underlines the need for strengthening the legal, regulatory and supervisory framework for NBFIs and financial markets. To that end, it is necessary to make a prompt transition to the risk-based approach to supervision over NBFI activities and **by the end of September 2024, to develop a methodology of supervisory risk evaluation distinguishing different types of NBFIs.**

These tasks are already included in the NBU's new Strategy published on 22 May 2023. The NBU's strategic tasks take into consideration the challenges arising in two areas: resistance to Russian aggression (the short-term measures aimed at ensuring stability and preventing the situation in the financial sector and the overall economy from deteriorating) and the country's recovery (the medium-term measures to launch transformations intended to lay the groundwork for the future reconstruction and economic growth).

The NBU's Strategy focuses on a series of strategic initiatives and measures, including the improvement of approaches to risk-based supervision and its implementation in the market of nonbank financial services, the payment market, and the readiness of the financial market to support the country's recovery. The recovery plan that Ukraine presented at the international conference in Lugano, Switzerland, is designed for 10 years and contains a list of national programs for future reconstruction of the national economy.

In addition, implementation of point 5.3.4 of the updated National Bank of Ukraine Strategy "Promotion of the NBU as a provider of technical assistance, including the establishment of the NBU's Expert Center for international partners", which will promote the strengthening the NBU's cooperation with financial sector regulators of other countries, disseminating best Ukrainian and international practices, and improving the world economy.

The implementation of the Twinning project in the NBU will support the implementation of the National Programs provided for in the Recovery Plan for Ukraine such as ensuring the macrofinancial stability, EU integration aspirations, etc., and will help to attain the goals set both in the NBU Strategy and in the Financial Sector Strategy. They are:

- ensuring financial stability
- focusing the operation of the financial system on the country's recovery
- modern financial services
- effective regulation of the financial sector.

¹ On 19 July 2023 the Financial Stability Council approved the Financial Sector Strategy (to replace Strategy of Ukrainian Financial Sector Development until 2025), which will shape further the European integration of the financial sector. The FSC was established by a presidential decree in March 2015. The FSC provides a forum for the professional discussion of systemic risks to domestic financial stability.

Also, the NBU as a regulator of the financial services market of Ukraine gains additional commitments and objectives assigned to Ukraine by results of the European Council on 23 June 2022 in Brussels, where Ukraine was awarded the status of the candidate for accession to the EU. They include:

- fulfillment of Ukraine's commitments to obtain the EU's single domestic market regime, in particular the approximation of Ukrainian financial services legislation to EU acquis
- preparation for EU accession
- development of cooperation with the EU Member States in the financial area, enhancing cooperation with European institutions, including the European Insurance and Occupational Pensions Authority (EIOPA), central banks and supervisors of EU Member States.

3. DESCRIPTION

3.1 Background and justification:

Despite numerous challenges, including the ongoing Russian aggression against Ukraine, in the course of past several years, significant progress has been made in reforming the non-bank financial sector.

In the period from 2017-VI/2023, the following laws regulating NBFIs were adopted:

- Law of Ukraine No. 2473-VIII *On Currency and Currency Operations* dated 21 June 2018;
- Law of Ukraine No. 79-IX *On Amendments to Certain Laws of Ukraine On the Consolidation of Functions of the State Regulation of the Financial Services Markets* dated 12 September 2019 (SPLIT Law);
- Law of Ukraine No. 738-IX *On Capital Markets and Organized Commodities Markets* dated 19 June 2020;
- Law of Ukraine No. 1201-IX *On Financial Leasing* dated 04 February 2021;
- Law of Ukraine No. 1349-IX *On Amending Certain Legislative Acts of Ukraine On Consumer Protection in Settlement of Overdue Debts* dated 19 March 2021;
- Law of Ukraine No. 1591-IX *On Payment Services* dated 30 June 2021;
- Law of Ukraine No. 1909-IX *On Insurance* dated 18 November 2021;
- Law of Ukraine No. 1953-IX *On Financial Services and Financial Companies* dated 14 December 2021;
- Law of Ukraine No. 2465-IX *On Joint Stock Companies* dated 27 July 2022;
- Law of Ukraine No. 3254-IX *On Credit Unions* dated 14 July 2023.

After Law of Ukraine No. 79-IX *On Amendments to Certain Laws of Ukraine On the Consolidation of Functions of the State Regulation of the Financial Services Markets*, adopted by the Verkhovna Rada of Ukraine dated 12 September 2019 came into effect, the NBU assumed the functions on regulation of nonbank financial services market and as of 1 July 2020 regulates and supervises insurance companies, credit unions, pawnshops, and financial companies that grant loans, provide guarantees, financial leasing and factoring, as well as lessors that are legal entities. The NBU also got its mandate extended to consolidated regulation and supervision over NBSFs, where the main activity is performed by NBSF under the NBU supervision.

From 1 July 2020, numerous implementing regulations have been adopted. In just 2 years after the adoption of the SPLIT law, the NBU adopted 32 normative legal acts in the field of non-bank financial services market regulation. These are documents that relate to the most important aspects of regulation and supervision in the market of non-banking financial services, including licensing and registration procedures, off- and on-line supervision, reporting models etc. The NBU required all NBFIs (except credit unions) to disclose their owners and those with non-transparent ownership structures to change their ownership structure by October 2021.

During 2023, the NBU continued its active work in regulating the non-banking financial services market and introduced a number of updated regulations as required by the new laws (Law of Ukraine No. 1909-IX On Insurance dated November 18, 2021; Law of Ukraine No. 1953-IX On Financial Services and Financial Companies dated December 14, 2021; Law of Ukraine No. 3254-IX On Credit Unions dated July 14, 2023). New regulations shall create favorable conditions for the effective functioning and development of the non-banking financial services market. Among next steps, the NBU is keen to allocate supervisory resources to the areas of greatest risk and therefore plans to implement a supervisory risk assessment methodology, which distinguishes between the types of the NBFIs, to inform supervisory engagement priorities and leverage supervisory efficiencies through improved resource allocation and processes.

As of December 31, 2021, 155 insurers, 261 pawnshops, 278 credit unions, and 935 financial companies operated on the nonbank financial market. In addition, 23 NBFIs had been recognized on the market.

The assets of nonbank financial institutions on the nonbank financial services market as of 01.10.2021 are (UAH million): insurers 65636; credit unions 2438; financial companies 190,704; pawnshops 4205.

Share of different segments in the total assets of the nonbank financial services market was as follows: insurers 25%; credit unions 0.9%; financial companies 72.5%; pawnshops 1.6%.

As of 30 June 2023, 1059 NBFIs are included in the registers maintained by the NBU, in particular: 115 insurance companies, including 12 from life insurance, 151 credit unions, 629 financial companies, 164 pawnshops.

Impact of Russia's large-scale armed aggression against Ukraine on the nonbank financial sector.

Insurers Market

Since 24 February 2022, the NBU has continually updated its measures for the regulation of insurance market, with regard to the changing situation and current needs for sustainable operation of insurers under the martial law. At the beginning of a full-scale Russian invasion some NBU's approaches to regulation were simplified and it facilitated the continued and well-organized operation of the market.

In spite of the war, the majority of insurers have sufficient eligible assets to ensure the solvency pursuant to the applicable legal requirements. The insurers continue to fulfil their liabilities. After the first shock in the first quarter of 2022, the market managed to adjust business processes of settling insurance claims under the wartime conditions.

The continuous analysis and monitoring of insurers' activities by the NBU (analysis of reports, 10-day notifications of insurers, critical performance indicators), communications with the insurance market, information received from the financial services providers, citizens' requests, market indicators confirm that the insurance market decently passes the testing by war. The positive changes are observed in setting up the activities of most insurers and restoring the active provision of insurance services. The financial resilience of the insurance market has been forming during the previous two years and has been demonstrated under the unprecedentedly severe conditions of wartime.

At present, each month of war the main actors of the insurance market that make 80-90% of its volumes by premiums and insurance reserves, are demonstrating their ability to work, pay, and fulfil liabilities under the concluded insurance agreements. The insurers have set up their operating activities, remote settlement of losses. They have not lost and even increased their liquidity (funds placed with banking institutions), invest in acquiring of war bonds, and support the state.

As of the beginning of the Russian war of aggression against Ukraine (24 February 2022), the State Register of Financial Institutions (SRFI) comprised 145 insurers, with 13 of them being life insurance companies. In 2022, the number of insurers reduced by 27 companies (-17%).

As of 30 June 2023, the SRFI comprised 115 insurance companies, including 12 life insurance companies.

The corrective measures were applied to withdraw from the market the insurers that failed to comply with the NBU requirements on confirmation of the transparency of ownership structure and/or good

business reputation of officials of insurers/owners of a qualifying holding. Some insurers have left the market on their own initiative.

Changes in 2022:

By volumes of services provided the market reduced: in nonlife segment - by 20.7% and in life insurance - by 17.5%. At the same time, life insurance companies made payments by 6.8% yoy more and insurance claim payments under risky types of insurance reduced by 29.3%.

Civil liability insurance of vehicles was the main driver of growth. Green Card premiums grew more than twice (+124.7%), from UAH 1.8 billions to UAH 4.0 billion.

In the insurance portfolio, volumes and share reduced most in the insurance of property (-52%; UAH 2.6 billion) and financial risks (-59%; UAH 1 billion). C&C insurance fell by 20.7% to UAH 8.4 billion.

The share of personal types of insurance (voluntary health insurance, accident insurance, life insurance) accounted for 28%.

During 2022 the reinsurance transactions further reduced.

In the first quarter of 2023:

Life insurance companies made payments by 64% more than in the same period in 2022, while insurance claim payments under risky types of insurance grew by 19%. MTPL premiums increased by 31% and Green Card premiums by 80%.

The structure of eligible assets of life and nonlife insurers in Q1 2023 is as follows:

- life: investments in government securities (55%); funds on deposits in banking institutions (29%)
- nonlife: funds in banks (28%); investments in government securities (19%); rights of claim to reinsurers (14%); funds in the Motor (Transport) Insurance Bureau of Ukraine (12%); real estate (9%); acceptable receivables (3%).

Credit Unions Market

Since February 2022, credit unions have conducted their operation under martial law. Some of the credit unions stayed in the temporarily occupied territories, others in the zones of active fighting. This led to substantial cutback in lending, increase in the share of overdue loans, accumulation of accrued but not paid interest, and the need for creating additional provisions to cover losses.

Russia's large-scale armed aggression against Ukraine triggered a significant number of adverse factors that have substantial impact on the financial standing of credit unions, in particular:

- over 8 million citizens of Ukraine left their places of permanent residence and moved to safer places, which led to significant and unforeseen (at the time of getting a loan) losses
- a lot of enterprises stopped their operation/were damaged or destroyed and therefore stopped paying the salaries that were the main source of payment for loans
- a large number of people (especially in the zones of active fighting) lost their housing, or it was significantly destroyed, which also led to unforeseen losses
- a significant number of employable men were drafted into the Armed Forces of Ukraine
- a large share of self-employed population had to cease their business activities
- a significant number of agricultural producers could not carry out a full cycle of land cultivation, which led to a significant reduction in the harvest and, accordingly, to losses. Part of the crop remained unharvested
- a significant number of people lost their property that was the subject of lending and collateral for the granted loans, and due to this they stopped servicing the debt
- at the legislative level, fines and liability for overdue payment of obligations were abolished, which also caused the deterioration of the quality of servicing the granted loans

- law enforcement agencies stopped collecting debts.

As a result, the level of nonperforming loans of credit unions (overdue for more than 90 days) increased from 8% to 26% in 2022, and up to 32% in Q1 2023. The level of interest overdue for more than 90 days is also critically high. While at the beginning of 2022 the level of overdue payments was 42% or UAH 71 million, by the end of the year it was already 67% or UAH 133 million, and by the end of Q1 2023 it grew to 83% or UAH 168 million.

The deterioration of the quality of loan portfolio led to a significant increase in the structure of nonperforming assets, despite the general trend towards their reduction, accrued but unpaid interest (as of the beginning of 2022, their share was 30%, at the end of the year it was already 60%, and in Q1 2023 it increased to 80%) and the expenses of credit unions on creation of additional provisions to cover losses.

Additionally, the quality of loan portfolio was also affected by the reduction in granting new loans. Thus, the volume of new loans granted in Q4 2022 decreased by UAH 35 million or 13% compared to Q1 2022. However, in Q1 2023 the trend changed and the amount of new loans granted increased by UAH 23 million or by 10% compared to Q4 2022.

The deterioration of the quality of loan portfolio and the significant increase in expenses on creation of additional provisions to cover losses had a negative impact on the size of core capital of credit unions. Thus, in 2022, the total amount of core capital shrank by 25% or UAH 170 million. The trend continued in Q1 2023, the reduction was 2% or UAH 11 million.

Reserve capital and retained earnings have a decisive influence on the size of core capital of credit unions. Thus, in 2022, the reserve capital shrank by 20% or UAH 100 million. In Q1 2023, the reserve capital remained almost unchanged. In addition to the reasons mentioned above, the reduction of reserve capital is also connected with its use to cover losses.

If according to the results of 2021 the market demonstrated profitable activity, the profit was UAH 29 million, according to the results of 2022 the market recorded a loss in the amount of UAH 70 million. The first quarter ended in losses in the amount of UAH 7 million.

Market of Financial Companies, Lessors, Pawnshops

Changes in 2022:

In this segment, a high market concentration is retained: 80% of financial services are provided by top 20 companies. Pawnshops (equity capital in assets amounts to 33%) and financial companies (28%) are the most capitalized and lessors (2%) are the least capitalized. The volume of financial services remained several times lower than before the full-scale invasion, although it increased at the end of the year.

The financial institutions are actively recovering their equity capital due to the supervisory measures imposed. Market exit of the companies in 2022 did not impact substantially the capitalization of nonbank financial services market participants (the companies withdrawn are inactive or those that do not intend to run intense activities on the financial services market). The average share of equity capital in the structure of assets of financial institutions is about 23% (pawnshops - 33%, financial companies - 28%, lessors - 2%).

The biggest challenges for the guarantors in 2022 were the requirements for liquidity and a cap on risk per entity. Level of liquidity of supervised entities at the end of 2022 improved significantly, and the licenses of the financial companies that did not plan to issue guarantees were annulled upon their request. Their number reduced from 111 to 67.

Changes in Q1 2023:

The number of supervised entities has been further reducing: by 100 institutions in Q1 2023, including 79 financial companies, 12 pawnshops, and 9 lessors. At the same time, 55 institutions left the market at their own initiative (including 39 financial companies, 9 pawnshops, and 7 lessors) and 45 institutions at the NBU's initiative (including 40 financial companies, 3 pawnshops, and 2 lessors). At the same time, finance companies' assets grew despite many institutions leaving the market. Pawnshops (equity capital in assets amounts to 32%) and financial companies (28%) still remain the most capitalized. The

volumes of the financial services provided partially stabilized in Q1 2023. The situation in the consumer lending market is still difficult, the consumer loans in the wartime are mainly provided by the pawn loans market.

In order to exercise its expanded powers in a comprehensive and effective way, the NBU has started defining a new, risk-based model of regulation and supervision over NBFIs, using a principle-based, forward-looking approach and taking into account the risk profile, social significance and the business model specifics of participants of the nonbank financial services market, and the need to ensure the appropriate level of protection of consumer rights in financial services. The aforesaid will envisage setting regulatory requirements and introducing comprehensive risk management systems by NBFI, as well as their quantitative assessment in the medium term.

A well-designed, risk-based supervision system in the nonbank financial services market will contribute to:

- effective allocation of supervisory resources and softening supervisory pressure on financial institutions that meet their obligations to customers,
- reinforcing regulatory requirements and supervisory efforts aimed at institutions, which pose or could pose a threat for fulfilment of such obligations.

To change the model of supervision over the nonbank financial services market, the NBU is taking steps toward bringing the regulatory environment in line with EU laws, standards of international supervisors' associations for nonbank financial services markets.

3.2 Ongoing reforms:

During 2020–2022, the NBU adopted Regulations related to important aspects on regulation and supervision of the nonbank financial services market, including documents on risk criteria, off-site supervision, inspections, consolidated supervision, enforcement measures, licensing, disclosure of ownership structure, reporting, etc.

In 2023, the NBU significantly updated the regulation of the non-banking financial services market as required by the new laws (Law of Ukraine No. 1909-IX On Insurance dated November 18, 2021; Law of Ukraine No. 1953-IX On Financial Services and Financial Companies dated December 14, 2021; Law of Ukraine No. 3254-IX On Credit Unions dated July 14, 2023).

In particular:

- Criteria for market participants' degree of risk and their social importance, to establish the frequency of scheduled inspections. Supervision is focused primarily on NBFI, that have a significant degree of public importance and a critical degree of risk (NBU Board Resolution No. 143 dated 08 November 2023);
- Procedure for off-site supervision of nonbank financial market participants, allowing for timely access by the NBU to relevant market information, prevention of offenses, timely communication with market participants and ensuring compliance with the rights and interests of market participants (NBU Board Resolution No. 162 dated 14 December 2023);
- Procedure for organization, conducting and processing of results of inspections the nonbank financial services market participants (NBU Board Resolution No. 167 dated 20 December 2023);
- Procedure for supervision of NBFIs on a consolidated basis (NBU Board Resolution No. 202 dated 29 December 2023);
- Rules of use by the NBU for adjustment measures, early intervention measures, impact measures in the field of state regulation of activities on markets of non-banking financial services (NBU Board Resolutions No. 183 dated 25 December 2023);
- New rules for licensing and registration of financial service providers on the nonbank financial services market (NBU Board Resolution No. 199 dated 24 December 2021);

- Requirements for ownership structure of financial service providers, which allowed the NBU to establish effective and systematic monitoring of ownership structures of financial service providers, and to obtain information about real owners of financial service providers (NBU Board Resolution No. 30 dated 14 April 2021 (with changes));
- Rules for preparing and submitting reports by nonbank financial services market participants to the NBU (NBU Board Resolution No. 123 dated 25 November 2021 (with changes)).

The NBU is developing new regulations aimed at implementing requirements of the new laws in the area of regulation and supervision of financial services providers: the Law of Ukraine *On Financial Services and Financial Companies* (No. 1953-IX), the Law of Ukraine *On Insurance* (No. 1909-IX), and the Law *On Credit Unions* (No. 3254-IX), which provide for revised, clarified requirements to corporate governance, building internal control systems, and managing risks of financial services providers. The laws also provide for revised approaches to prudential supervision and market conduct supervision based on the principles of risk-based, proportionate regulation and supervision. The new financial laws provide for a transitional period (until 1 July 2024) for financial services providers to bring their activities in line with the new requirements.

- Law of Ukraine No. 1953-IX *On Financial Services and Financial Companies* dated 14 December 2021. The Law provides for a substantial revision of the current provisions of the laws in the area of regulation of financial services markets, fundamentally changes the general issues of financial services provision in Ukraine, establishes requirements to relationship of the provider of financial and/or support services with customers and protection of customers' rights, requirements to agreements on financial services provision, establishes revised approaches to supervision and regulation of the provision of financial and support services based on a risk-based and proportional approach. In particular, the Law prescribes that supervision shall be conducted by the NBU using a risk-based approach and based on the principle of proportionality, taking into account the specifics of the type of financial services activity, the nature and scope of services provided, the systemic importance of financial and/or support services providers engaged in such activity, and the risks inherent in such activity, including the risks to which the financial and/or support services provider is exposed as a result of participation in a financial group.

Introducing of risk-based and proportional approach to the supervision of insurers and credit unions are prescribed by special laws:

- Law of Ukraine No. 1909-IX *On Insurance* dated 18 November 2021. The Law also provides for a revised approach to licensing and supervision of insurers, sets new requirements for the operations of insurers (in particular, in terms of the transparency of ownership structures and sources of funds of the qualifying holding founders/owners, the strategy and plans for insurer's activities, and the proper organization of the management system, including corporate governance), introduces new approaches to the capital and solvency requirements, strengthens regulation of insurance intermediaries' activities.
- Law of Ukraine No. 3254-IX *On Credit Unions* dated 14 July 2023. In particular, the law expands the range of services by credit unions, strengthens the requirements to corporate governance and capital in credit unions, introduces a system of early warning of risks.

Main laws' provisions come into force on 01.01.2024 and define the updated requirements to NBFIs, regulation and supervision of them. The introduction of a full-fledged risk-based approach to supervision is envisaged during the implementation of the abovementioned laws. Currently, the NBU is developing new documents that will establish key requirements for the organization and effective functioning of risk management systems, internal control, corporate governance in NBFIs and NBSFs:

- Regulation on Requirements to Credit Union Management System
- Regulation on Organization of Management System in Financial Payment Services Providers

The NBU has already adopted:

- Regulation on the Requirements for Insurer's Management System (NBU Board Resolution No. 194 dated 27 December 2023);
- Regulation on the Activities of Financial Companies-Guarantors (NBU Board Resolution No. 191 dated 27 December 2023);
- Regulation on Prudential Requirements for Financial Companies (NBU Board Resolution No. 192 dated 27 December 2023)

Risk management system will consist of a set of documented and approved policies, methods and procedures of risk management, ensuring a clear division of powers and responsibilities between all actors in the risk management system, following the concept of three lines. Risk management requirements will be established in such a way as to ensure risk identification, monitoring and control of risks, as well as to apply measures to mitigate risks inherent in activities of a NBFIs at all organizational levels. Quantitative risk assessment and risk profile of the institution, stress testing of significant risks, and improved risk management information systems will also be introduced. It is envisaged to establish in stages proportional requirements for individual segments, considering groups of social importance / importance of institutions in the segment.

Internal control system will consist of a set of elements such as internal audit, risk management, compliance, and other elements. The key goal of internal control system implementation is to achieve by financial service providers operational, informational and compliance objectives set out in the strategy and / or business plan. The construction of the internal control system will be based on COSO principles and will include the following mandatory components: control environment, risk assessment, control activities, control over information flows and communications, monitoring the effectiveness of the internal control system. It is planned that the internal control system will be integrated into all internal processes of financial service providers.

Corporate governance system is being developed considering European practice and will provide proportional requirements for corporate governance of participants in certain segments of the nonbank financial services market (except for professional stock market participants).

3.3 Linked Activities:

Several development partners have been supporting the NBU over last few years. In the area of prudential requirements to NBFIs, currently the key partners for the NBU are the USAID, the World Bank, the EBRD, which have been closely coordinating:

Insurance: World Bank Project "Financial sector recovery and resilience in Ukraine" (till 2025), USAID "Financial sector reforms (FSR)" (till 2027) (war risk insurance mechanisms issue), EU-FINREG "Strengthening the Regulation and Supervision of the Non-bank Financial Market" (17.11.2017 – 16.07.2023);

Credit unions: USAID "Credit for Agriculture Producers (CAP)" Project in Ukraine (till 30.09.24 with no possibility to be prolonged), World Bank Project "Financial sector recovery and resilience in Ukraine" (till 2025) (only expert opinion on regulations, developed by the NBU, upon request), EU-FINREG "Strengthening the Regulation and Supervision of the Non-bank Financial Market" (17.11.2017 – 16.07.2023) (single requests, reporting models for credit unions);

Financial companies and pawnshops: USAID "Financial sector reforms (FSR)" (till 2027), EBRD "Supporting the Regulation of Factoring in Ukraine" (short-term project with specific TOR, duration 18 months), USAID "Financial sector transformation (FST)" (28.10.2016 – 27.10.2021), EU-FINREG "Strengthening the Regulation and Supervision of the Non-bank Financial Market" (17.11.2017 – 16.07.2023).

The coordination of international technical assistance at the NBU is well organized in accordance with international best practices and carried out in line with internal regulations. The main features of the process:

- international technical assistance (hereinafter – TA) is attracted for the purpose of reforming the financial sector of Ukraine, including the approximation of Ukrainian legislation to EU acquis, as well as strengthening the institutional capacity of the NBU

- technical assistance needs (hereinafter – TA needs) are defined in accordance with the Strategic Documents for the Ukrainian financial system development and reforming, in particular: the National Economic Strategy of Ukraine 2030, the NBU Strategy, the Financial Sector Strategy, the EU-Ukraine Association Agreement

- TA needs are reviewed annually and may be updated quarterly

- TA needs for the respective year are formalized in the Matrix of NBU’s TA needs (hereinafter – the Matrix) and their implementation is tracked throughout the year.

One of the key principle of TA coordination at the NBU is to avoid overlapping. This is achieved through the following:

- each area of TA (prudential supervision, nonbank financial institutions, payment systems and cash circulation, general issues, financial and monetary stability, and market operations, finance/administration and operations) is coordinated by a selected employee (TA-partner) of the International Cooperation Department

- the Matrix includes information on potential and current development partners, the status of requests, and agreements that were reached (updated on a daily/weekly basis). This consolidated information allows the NBU to see the whole picture and attract TA in a rational manner

- monitoring of TA (a system for tracking the status of implementation of TA activities) is carried out on a quarterly basis.

3.4 List of applicable Union acquis/standards/norms:

- Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II);
- Directive 2002/87/EC of the European Parliament and of the Council of 16 December 2002 on the supplementary supervision of credit institutions, insurance undertakings and investment firms in a financial conglomerate and amending Council Directives 73/239/EEC, 79/267/EEC, 92/49/EEC, 92/96/EEC, 93/6/EEC and 93/22/EEC, and Directives 98/78/EC and 2000/12/EC of the European Parliament and of the Council;
- Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms;
- Regulation (EU) 575/2013 on prudential requirements for credit institutions and investment firms.

3.5 Components and results per component:

The project will include 4 components:

Mandatory Result 1 / Component A: Introduction of quantitative assessment of risks that pose a threat of capital loss, liquidity of NBFIs and risk profile.

Development of Regulation on quantitative assessment of risks that pose a threat of capital loss, to assessment of capital adequacy and to determination of risk profile of NBFIs; development of the “Roadmap” that introduces internal process of capital adequacy assessment and process of liquidity adequacy assessment by NBFIs or other approaches, based on European experience for certain market segments, namely: insurers; credit unions; joint credit unions; guarantors; payment services providers; lessors; factoring companies; NBFIs providing loans.

In the context of Mandatory Result 1, as a minimum the following sub-results will be achieved:

Sub-result 1.1.

Under Sub-result 1.1, a Roadmap for quantitative assessment of risks affecting NBFIs' performance and respective draft regulatory requirements will be developed.

Development of the "Roadmap" that introduces quantitative assessment of risks that pose a threat of capital loss (indicators, criteria), to assessment of capital adequacy and liquidity adequacy, to construction of risk profile of NBFIs (insurers; credit unions; joint credit unions; guarantors; payment services providers; lessors; factoring companies; NBFIs that provide loans).

Development of the regulatory requirements for the organization and effective functioning of risk management systems, internal control, corporate governance and of the respective supervisory check/assessment techniques for segments of the non-banking financial services market:

- insurance companies;
- credit unions;
- financial companies (which provide one or more of the following types of financial services: lending, factoring, financial leasing, provision of guarantees);
- pawnshops.

Improving NBU employees' skills regarding approaches on quantitative risk assessment, risk profile construction, capital adequacy assessment, liquidity and application of internal process of capital adequacy assessment and liquidity adequacy assessment process by NBFIs, or other approaches based on European experience in EU MS.

Sub-result 1.2.

Development of a Regulation ("target model" of SRM), which includes a quantitative assessment of risks and capital adequacy, risk profile.

Improvement of Regulation that set up capital requirements to cover significant risks, taking into account regulatory approaches set out in White Books for insurers; credit unions; joint credit unions; guarantors; payment services providers; lessors; factoring companies; NBFIs that provide loans.

Conducting trainings for the Ukrainian nonbank financial services market participants on approaches to construct SRM, used in European practice.

Sub-result 1.3.

Depending on sub-results 1.1, 1.2 and studying European experience on best practices of regulatory requirements for internal assessment of capital adequacy by NBFIs - development of a concept and "Roadmap" for introduction of internal capital adequacy and liquidity assessment in the Ukrainian nonbank financial services market.

Strengthening competencies of the NBU employees in the best European practice of regulatory requirements regarding internal assessment of capital adequacy by NBFIs.

Mandatory Result 2 / Component B: Development of risk-oriented supervision and introduction of supervisory assessment of NBFIs.

New methodologies developed to implement supervisory assessment of NBFIs considering their size and features; strategy and business models; risk management systems, internal control, corporate governance.

In the context of Mandatory Result 2, as a minimum the following sub-results will be achieved:

Sub-result 2.1.

Development of a supervisory assessment methodology of NBFIs that will ensure the implementation of risk-based supervision by identifying institutions that require more intensive supervision (including corrective actions and early intervention measures), taking into account the size of the financial service

provider and its accumulated risks (including risks related to the participation in a financial group) and the quality of their management.

Improving NBU employees' skills regarding an experience of building and applying of supervisory assessment of NBFIs.

Sub-result 2.2.

Development of a Draft Regulation on introduction of supervisory assessment, improvement (if necessary) Regulation on NBFIs supervision (off-site and on-site), risk assessment criteria, identification of socially important / significant institutions, application of response measures.

Improving NBU employees' knowledge on:

- internal procedures / regulations / tools to conduct supervisory assessment, used by EU MS supervisory authorities, including acquaintance with relevant documents;
- experience of building risk-oriented supervision, documentation of supervisory actions, filing of risk-oriented supervision results, including Paperless principle application;
- development and implementation of approaches to building an Early Response System, tools and procedures for risk-oriented supervision of insurers, credit unions, joint credit unions, guarantors, payment services providers, lessors, factoring companies, NBFIs that provide loans.

Mandatory result 3 / Component C: Development of a model of prudential requirements for NBFs.

A model of prudential requirements for NBFs (composition of standards and their limit values) is developed and implemented.

In the context of Mandatory Result 3, as a minimum the following sub-results will be achieved:

Sub-result 3.1.

The composition of standards aimed at limiting risks to which a NBF is exposed as a result of participation in a NBF is defined.

Improving NBU employees' skills in regulation and supervision on a consolidated basis of NBFs and NBFs participating in banking groups.

Sub-result 3.2.

Approbation of standards was carried out with the involvement of Ukrainian NBFs participants, limit values of standards were determined.

Sub-result 3.3.

Development of amendments to the Regulation on regulation of NBFs in order to introduce the standards defined.

Mandatory Result 4 / Component D: Institutional strengthening the NBU capacity as the NBFS Supervisory Authority in the area of European integration of Ukraine.

Strengthening the NBU capacity for the implementation of the EU-Ukraine Association Agreement obligations and preparing for EU accession, negotiations with the European Commission and the EU MS during the European Integration process. It should result into fulfilling Ukraine's obligation under the EU-Ukraine Association Agreement, successful cooperation with the EC and increasing practical knowledge of negotiation process, its strategy and tactics to reach the EU Membership. The NBU's cooperation with EIOPA, EU MS NBFS Supervisory Authorities/Central Banks and International Organizations in the nonbank financial sphere is also expected to be improved. NBU also expects to develop a system for the exchange of experience and knowledge between regulators of NBFs, including

the establishment/involvement in expert and training platforms, events for exchange/sharing expertise and experience on bilateral and multilateral basis.

In the context of Mandatory Result 4, as a minimum the following sub-results will be achieved:

Sub-Result 4.1. The recommendations for efficient EU accession negotiations, preparing information on the NBU progress for EU Enlargement Package, the implementation of the EU-Ukraine Association Agreement obligations in the nonbank financial sphere.

Sub-Result 4.2. Recommendations on enhancing cooperation of the NBU with EIOPA, EU MS NBFS Supervisory Authorities /Central Banks and International Organizations in the nonbank financial sphere and in international fora, including the IAIS.

Sub-Result 4.3. Recommendations on the organization of exchange of experience and special knowledge system, including the establishment/involvement in expert and training platforms/Center/events for exchange/sharing expertise and special knowledge on bilateral and multilateral basis between the NBU and banking/nonbanking financial regulators.

3.6 Means/input from the EU Member State Partner Administration(s):

The project will be implemented in the form of a Twinning contract between the EU Delegation to Ukraine as a Contracting Authority, Beneficiary Country and EU Member State(s). The implementation of the project requires one Project Leader (PL) with responsibility for the overall coordination of project activities and one Resident Twinning Adviser (RTA) to manage implementation of project activities, Component Leaders (CL) and pool of short-term experts within the limits of the budget. It is essential that the team has sufficiently broad expertise to cover all areas included in the project description.

Proposals submitted by Member States shall be concise and focused on the strategy and methodology and an indicative timetable underpinning this, the administrative model suggested, the quality of the expertise to be mobilised and clearly show the administrative structure and capacity of the Member State entities. Proposals shall be detailed enough to respond adequately to the Twinning Fiche, but are not expected to contain a fully elaborated project. They shall contain enough detail about the strategy and methodology and indicate the sequencing and mention key activities during the implementation of the project to ensure the achievement of overall and specific objectives and mandatory results/outputs.

The interested Member State(s) shall include in their proposal the CVs of the designated Project Leader (PL) and the Resident Twinning Advisor (RTA), as well as the CVs of the potentially designated Component Leaders (CLs).

The Twinning project will be implemented by close co-operation between the partners aiming to achieve the mandatory results in sustainable manner.

The set of proposed activities and indicators will be further developed with the Twinning partners when drafting the initial work plan and successive rolling work plan every three months, keeping in mind that the final list of activities will be decided in cooperation with the Twinning partner. The components are closely inter-linked and need to be sequenced accordingly.

Due to security reasons the project is expected to be implemented in a 'hybrid' mode (combining online and offline events and means of collaboration). In line with the flexibility arrangements for the implementation of Twinning projects in Ukraine, RTA and short-term experts may be allowed to work from their home country(ies) using the videoconferencing facilities. The exact arrangements shall be agreed in the workplan, with the overall assumption that the remote work contributes to the successful implementation of the project. If the security situation changes after the conclusion of the contract, the project format may be changed to a standard offline implementation arrangement. This issue will be additionally agreed.

3.6.1 Profile and tasks of the Project Leader (PL)

Qualifications and skills:

- Proven contractual relation to a public administration or mandated body responsible for central banking or nonbank supervision
- University degree preferably in the of law, public administration, economics, finance, business administration or equivalent, or additional 8 years (to the required below) of general professional experience in NBFS
- Extended professional experience in financial sector
- At least 3 years of specific experience in the areas of nonbank financial institutions supervision
- Previous experience in project management and/or as a team leader will be considered as asset
- Previous experience in international cooperation will be considered as asset
- Previous experience in change management will be considered as asset
- Fluent written and spoken English
- Fluency in Ukrainian will be considered as asset

Tasks:

- Conceive, supervise and coordinate the overall Twinning project
- To provide strategic advice on high level regarding reforms supported by the Twinning
- Coordinate and monitor the overall implementation of the project including coordination and direction of the MS Twinning partner
- Coordinate MS experts' work and availability
- Communicate with the beneficiary and EU Delegation
- Ensure the backstopping functions and financial management
- Guarantee from the MS administration side, the successful implementation of the project
- Participate in quarterly meetings of the Project Steering Committee with the BC PL
- Participate in preparation of the initial and subsequent work plans
- Participate in preparation of both interim and final reports.

3.6.2 Profile and tasks of the Resident Twinning Advisor (RTA)

The relevant institution of MS will appoint a long-term Resident Twinning Advisor (RTA).

Qualifications and skills of the Resident Twinning Adviser:

- Proven contractual relation to a public administration or mandated body, in charge of central banking or nonbank supervision
- University degree in one of the following fields: law, public administration, economics, finance, business administration or equivalent; or additional 8 years (to 3 years required below) of experience in the fields relevant to the project
- Professional experience in financial sector and public administration
- At least 3 years of specific experience in the fields relevant to the project: supervision of non-bank financial institutions
- Previous experience in project management, training and mentoring in related areas will be considered as asset
- Fluent written and spoken English
- Fluency in Ukrainian will be considered as asset

Tasks:

As to the general responsibility of the day-to-day implementation of the Twinning project in the Beneficiary Country, the Resident Twinning Adviser (RTA) tasks will include:

- Provide technical advice and assistance to the administration or other public sector bodies in the BC in the context of a predetermined work-plan
- Coordination of all project activities and experts inputs in the BC
- Ensuring day-to-day implementation of the Twinning project in the BC
- Ensuring coordination with other donors working in relevant fields

- Ensuring smooth correlation between the activities, deadlines and the envisaged results in the Work Plan
- Preparation of the materials and documentation for regular monitoring and reporting
- Preparation of side letters
- Together with the Project Leader, to nominate, mobilize and supervise the Short-Term experts.

In addition to the above, an assistant and a full time translator-interpreter shall be appointed to assist the RTA. Allowance for this must be made within the project budget. Furthermore, the assistant and translator will facilitate the training activities. Where necessary (for example, during training activities, translation of project documents/reports and materials) the project may hire additional translators with costs covered by the project.

3.6.3 Profile and tasks of Component Leaders

Component Leaders will provide general guidance for four Components of the project. Their profiles should correspond to the following requirements:

- Proven contractual relation to a public administration or mandated body, in charge of central banking or nonbank supervision
- University degree in one of the following fields: law, public administration, economics, finance, business administration or equivalent; or additional 8 years (to the required below) of general professional experience
- Extended professional experience in financial sector
- At least 3 years of experience in the fields relevant to the project: supervision of NBFIs according to EU rules
- Previous experience in consulting, training and mentoring in related areas will be considered as asset
- Fluent written and spoken English
- Fluency in Ukrainian will be considered as asset

3.6.4 Profile and tasks of other short-term experts

STEs will provide specialised know-how for the individual tasks in the project. Their profiles should correspond to the following requirements:

- Proven contractual relation to a public administration or mandated body, in charge of central banking or nonbank supervision
- University degree in one of the following fields: law, public administration, economics, finance, business administration or equivalent; or additional 8 years (to the required below) of general professional experience
- Professional experience in financial sector
- At least 3 years of experience in the fields relevant to the project: supervision of NBFIs according to EU rules
- Previous experience in consulting, training and mentoring in related areas will be considered as asset
- Fluent written and spoken English
- Fluency in Ukrainian will be considered as asset

4. BUDGET

The total maximum budget is EUR 1.5 million

5. IMPLEMENTATION ARRANGEMENTS

5.1 Implementing Agency responsible for tendering, contracting and accounting:

The Delegation of the European Union to Ukraine will manage the procurement, tendering, quality control, reporting and coordination with other donors, the financial and technical cooperation related to the actions described in this project fiche, taking remedial actions if and when needed.

Primary responsibility of the MS Project Leader shall be to ensure that the project produces the required outputs, to the required standards of quality and within the specified constraints of time and cost. PL and other project staff will also address cross-cutting issues. The relevant reports will be issued by the MS Project Leader and BC Project Leader on a quarterly basis.

The Delegation of the European Union to Ukraine together with the Twinning Programme Administration Office (PAO) will control the quality of all twinning documentation, check that the good financial management of the twinning project is in compliance with EC rules, receive and examine all twinning project reports, support all twinning stakeholders, including beneficiary administration and Member States.

Project's Steering Committee (PSC) will be responsible for the overall direction of the project and comprise of the representatives from the Beneficiary Administration, MS Administration, EU Delegation and PAO. At quarterly intervals the Project Leaders, the PSC will assess the project progress, verify the achievements of the outputs and mandatory results and define any actions required.

Monitoring will be performed by the EU Delegation to Ukraine.

The official language of the project will be English. All formal communication regarding the project, including all reports will be produced in English.

The person in charge at the EU Delegation to Ukraine:

Ms Vitaliya Mudruk
Sector Manager
EU Delegation to Ukraine
101, Volodymyrska street,
Kyiv, Ukraine, 01033
Tel.: +38 044 390 80 10 ext. 1812
e-mail: Vitaliya.Mudruk@eeas.europa.eu

The person in charge at the PAO in Ukraine:

Ms Olena Honcharuk
Head of the Twinning Coordination Division
Unit of Twinning Programme Administration Office activities ensuring of the Center for Adaptation of the Civil Service to the Standards of the European Union
Twinning Programme Administration Office (PAO)
National Agency of Ukraine on Civil Service
15, Prorizna Street, Kyiv, 01601, Ukraine
Tel: +38 044 279-54-30
e-mail: alyona.honcharuk@center.gov.ua; pao@center.gov.ua

5.2 Institutional framework

The NBU is the central bank of Ukraine, it is the independent body. The legal status, principles of organization and activity of the NBU are determined by the Constitution of Ukraine and the Law of Ukraine *On the National Bank of Ukraine*.

5.3 Counterparts in the Beneficiary administration

5.3.1 Contact person: Ms Liudmyla Labur
Position: Head of European Integration Unit, International Cooperation Department
Address: 9 Instytutaska St., Kyiv 01601

5.3.2 PL counterpart: Ms Kateryna Rozhkova
Position: First Deputy Governor, NBU
Address: 9 Instytutska St., Kyiv 01601

5.3.3 RTA counterpart: Mr Sergiy Khudiyash
Position: Director of International Cooperation Department
Address: 9 Instytutska St., Kyiv 01601

6. DURATION OF THE PROJECT

The project's implementation period is 24 months. The legal duration of the project is 27 months.

7. MANAGEMENT AND REPORTING

7.1 Language

The official language of the project is English. All formal communications regarding the project, including interim and final reports, shall be produced in the language of the contract.

7.2 Project Steering Committee

A project steering committee (PSC) shall oversee the implementation of the project. The main duties of the PSC include verification of the progress and achievements *via-à-vis* the mandatory results/outputs chain (from mandatory results/outputs per component to impact), ensuring good coordination among the actors, finalising the interim reports and discuss the updated work plan. Other details concerning the establishment and functioning of the PSC are described in the Twinning Manual.

7.3 Reporting

All reports shall have a narrative section and a financial section. They shall include as a minimum the information detailed in section 5.5.2 (interim reports) and 5.5.3 (final report) of the Twinning Manual. Reports need to go beyond activities and inputs. Two types of reports are foreseen in the framework of Twinning: interim quarterly reports and final report. An interim quarterly report shall be presented for discussion at each meeting of the PSC. The narrative part shall primarily take stock of the progress and achievements *via-à-vis* the mandatory results and provide precise recommendations and corrective measures to be decided by in order to ensure the further progress.

8. SUSTAINABILITY

The twinning partners will undertake to provide the basic infrastructure necessary for the sustainability of their joint twinning achievements. The sustainability of the results is likely to be achieved if the twinning partners commit themselves to the following:

- absorbing efficiently the contents and understanding of the training materials by the Beneficiary personnel being measured and monitored after each training session that is provided by simple tests;
- making maximum use of the skills and abilities of the beneficiary country administration personnel previously trained by [other] Member States; apply “train the trainers approach” for sustainable capacity building of the beneficiary administration;
- allowing for confirmation of the effect of the twinning project for the beneficiary administration by organising a final seminar that presents achieved results of the twinning activities at the end of the twinning project;
- providing assurance that manuals and procedures developed within the twinning project will be used by the beneficiary beyond the primary contract period.

The success of the project will be based on achieving practical results and the sustainability of the results will be an important measure of success.

9. CROSSCUTTING ISSUES (*equal opportunity, environment, climate etc...*)

All activities under this project will be designed and implemented in accordance with principles of good governance, human rights based approach, gender equality and environmental sustainability. Support to mainstreaming gender issues in public administration and into the legislative processes under the activities for the implementation of Association Agreement will be provided. All activities will ensure the respect to key Principles of Public Administration, especially the commitment to inclusive and evidence-based policy and legislative development.

This action will be implemented following a rights-based approach, encompassing all human rights. The five working principles below will be applied at all stages of implementation: legality, universality and indivisibility of human rights; participation and access to the decision-making process; non-discrimination and equal access; accountability and access to the rule of law; transparency and access to information.

By promoting an institutional culture of openness, accountability and transparency, the project will positively impact on the credibility and integrity of concerned Government Departments and Agencies. The project will strive to act as an example of positive administrative reform.

10. CONDITIONALITY AND SEQUENCING

The underlying assumption for this project is the Ukrainian political will to create an efficient market of financial services that will facilitate its integration with EU markets.

Projects to be implemented through Twinning require the full commitment and participation of the senior management of the beneficiary institution. In addition, to provide the Twinning partner with adequate resources to operate effectively, the senior management must be fully involved in the development and implementation of the policies required to deliver the desirable results.

The NBU is aware that several issues important for the smooth implementation of the Twinning Project and for the achievement of the components are partially or completely under its sole responsibility.

When the project starts, the NBU has to:

- ensure strong involvement/commitment of NBU staff at all levels;
- assign NBU's experts as counterparts for the STEs to cooperate on the implementation of activities according to the working plan;
- provide suitable venues and equipment for training sessions and seminars that will be held under the Project.

The sequencing of all Twinning activities will be prioritized in close coordination between the MS and the NBU and will work according to the Logical Framework, which will form part of the Twinning project contract.

11. INDICATORS FOR PERFORMANCE MEASUREMENT

Mandatory Result 1 / Component A: Introduction of quantitative assessment of risks that pose a threat of capital loss, liquidity of NBFIs and risk profile

Indicators for performance measurement:

- Internal (roadmaps, instructions for supervisory staff) and public (new regulations and amendments to existing regulations) NBU documents include the new methodologies and requirements developed.

- Number of NBU staff trained for the practical application of the new methodologies.
- Number of staff of the Ukrainian nonbank financial services market participants is trained to implement approaches to construct SRM.

Sub-Result 1.1: Development of a Roadmap for quantitative assessment of risks affecting NBFIs' performance and respective draft regulatory requirements will be developed.

Indicators for performance measurement:

- A Roadmap is developed and internally agreed within the NBU

Sub-result 1.2: Development of a Regulation ("target model" of SRM), which includes a quantitative assessment of risks and capital adequacy, risk profile.

Indicators for performance measurement:

- Methodologies for quantitative assessment of risks are reflected in a draft Regulation

Sub-result 1.3: Development of a concept and "Roadmap" for introduction of internal capital adequacy and liquidity assessment in the Ukrainian nonbank financial services market.

Indicators for performance measurement:

- A concept and a Roadmap are developed and internally agreed within the NBU

Mandatory Result 2 / Component B: Development of risk-oriented supervision and introduction of supervisory assessment of NBFIs.

Indicators for performance measurement:

- Availability of internal (roadmaps, instructions for supervisory staff) and public (new regulations and amendments to existing regulations) NBU documents on the supervisory assessment process and internal NBU documents on an Early Response System
- Number of supervisory assessments conducted using the newly developed methodologies
- Number of NBU employees' trained in supervisory assessment, documentation of supervisory actions

Sub-result 2.1: Development of risk-based supervisory assessment methodologies for NBFIs

Indicators for performance measurement:

- Instructions for supervisory staff are available in at least draft versions

Sub-result 2.2: Development of a Draft Regulation on introduction of risk-based supervisory assessment of NBFIs

Indicators for performance measurement:

- Draft Regulation is ready for adoption by the NBU Board

Mandatory result 3 / Component C: Development of a model of prudential requirements ~~economic~~ for NBFGs.

Indicators for performance measurement:

- NBU Regulation on NBFG include the new prudential requirements ~~economic~~ standards
- Number of the NBU staff trained to regulate and supervise NBFG and NBFIs-participants of banking groups on a consolidated basis

Sub-result 3.1. The composition of standards aimed at limiting risks, to which a NBFI is exposed as a result of participation in a NBFG, is defined.

Indicators for performance measurement:

- A set of standards is available

Sub-result 3.2. Approbation of standards is carried out with the involvement of Ukrainian NFBGs participants, limit values of standards are determined.

Indicators for performance measurement:

- Number of NFBGs taking part in the approbation of standards

Sub-result 3.3. Development of amendments to the Regulation on regulation of NFBGs in order to introduce the standards defined.

Indicators for performance measurement:

- A set of standards to limit risks is introduced in the NBU Regulation on NFBG

Mandatory Result 4 / Component D: Strengthening the NBU capacity for the implementation of the EU-Ukraine Association Agreement obligations and preparing for EU accession

Indicators for performance measurement:

- Number of NBU staff trained
- Number of reports/reviews prepared by the NBU on the status of implementation of commitments related to the EU Accession process
- Number of bilateral and multilateral events with NBFIs regulators of EU Member States and other countries

Sub-Result 4.1. Recommendations for efficient EU accession negotiations, preparing information on the NBU progress for EU Enlargement Package, the implementation of the EU-Ukraine Association Agreement obligations in the nonbank financial sphere.

Indicators for performance measurement:

- Recommendations on the EU accession negotiations in the areas related to NBFIs regulation and supervision

Sub-Result 4.2. Recommendations on enhancing cooperation of the NBU with EIOPA, EU MS NBFS Supervisory Authorities /Central Banks and International Organizations in the nonbank financial sphere and in international fora, including the IAIS

Indicators for performance measurement:

- Recommendations on the EU accession negotiations in the areas related to NBFIs regulation and supervision

Sub-Result 4.3. Recommendations on the organization of exchange of experience and special knowledge system, including the establishment/involvement in expert and training platforms/Center/events for exchange/sharing expertise and special knowledge on bilateral and multilateral basis between the NBU and banking/nonbanking financial regulators

Indicators for performance measurement:

- Recommendations on the EU accession negotiations in the areas related to NBFIs regulation and supervision

12. FACILITIES AVAILABLE

The office space, meeting rooms, hard and software, telephone, internet access, security related issues and facilities available for training, seminars and conferences will be provided by the NBU for the RTA, his/her assistants and visiting experts.

ANNEXES TO PROJECT FICHE

1. Logical framework matrix in standard format (compulsory)

Annex C1a: Simplified Logical Framework

	Description	Indicators (with relevant baseline and target data)	Sources of verification	Risks	Assumptions (external to project)
Overall Objective	To develop stable, secure and efficient financial services markets in Ukraine to provide financial resources to the national economy and support the country's post-war recovery, economic and social development and integration into the global financial environment.	<p>Macroeconomic and financial sector indicators confirm stability trends; positive trends in volumes and interest rates for lending by NBFIs.</p> <p>Baseline: In Q3 of 2023, non-bank finance companies issued corporate loans of UAH 18 billion volume</p> <p>Target: By the end of 2025, the volume of corporate loans by non-bank financial institutions should reach at least UAH 30 billion</p>	Publications by the IFIs, the NBU; reports on the implementation of the Financial Sector Strategy.	<i>High losses caused by the Russian war of aggression against Ukraine; high dependence on international assistance</i>	
Specific (Project) Objective(s)	Implementation of supervisory assessment of NBFIs in line with EU standards and development of the economic ratios	<p>Number of supervisory assessments conducted using the newly developed methodologies.</p> <p>Baseline: 2023 – no supervisory assessments based on new methodologies</p>	<p>The NBU Board Resolutions</p> <p>NBU internal instructions for supervisory personnel</p> <p>Twining Progress Reports</p>	<p>Slowing down the process of European integration</p> <p>Dismissal of key project participants</p>	The consequences of the Russian military aggression against Ukraine do not lead to a reverse of the reforms in the nonbank financial

	<i>Description</i>	<i>Indicators (with relevant baseline and target data)</i>	<i>Sources of verification</i>	<i>Risks</i>	<i>Assumptions (external to project)</i>
	model for NFBGs in Ukraine.	Target: By the end of the project, all newly developed methodologies will be approved by NBU Board Resolutions and tested at least on pilot basis	Twinning Final Report NBU Strategic Quarterly and Yearly Reports Reports of AA Implementation NBU's Reports on Financial Stability and Reviews of the non-bank financial sector Documents/reports of onsite and offsite supervision.	The risk of delayed implementation within the Twinning Project, in particular if the security situation in Ukraine complicates missions of EU MS experts.	sector or undermine the NBU independence. Availability of necessary data.
Mandatory results/outputs by Components	Mandatory Result 1 / Component A: Introduction of quantitative assessment of risks that pose a threat of capital loss, liquidity of NBFIs and risk profile.	Internal (roadmaps, instructions for supervisory staff) and public (new regulations and amendments to existing regulations) NBU documents include the new methodologies and requirements developed. Baseline: No risk assessment methodologies are included Target: By the end of the project, roadmaps will be internally approved in the NBU and at least	<ul style="list-style-type: none"> Roadmaps No. 1 and No. 2 (on the quantitative assessment of risks and on supervisory assessment process) Resolution of the NBU Board ("target model" of the SRM) NBU Regulations on amendments to Regulations that set up capital requirements to cover significant risks Project reports Training materials 	Dismissal of key project participants High or unexpected staff turnover The risk of delayed implementation within the Twinning Project, in particular if the security situation in Ukraine complicates missions of EU MS experts.	The consequences of the russian military aggression against Ukraine do not lead to a reverse of the reforms in the nonbank financial sector or undermine the NBU independence.

	<i>Description</i>	<i>Indicators (with relevant baseline and target data)</i>	<i>Sources of verification</i>	<i>Risks</i>	<i>Assumptions (external to project)</i>
		<p>draft regulations introducing risk assessment methodologies will be developed.</p> <p>Number of NBU staff trained for the practical application of the new methodologies.</p> <p>Baseline: No staff trained</p> <p>Target: At least 30 NBU staff members will be trained by the end of the project</p> <p>Number of staff of the Ukrainian nonbank financial services market participants is trained to implement approaches to construct SRM.</p> <p>Baseline: No staff trained</p> <p>Target: At least 500 NBF staff members will be trained by the end of the project</p>	<ul style="list-style-type: none"> • Trainees lists <p>Evaluation trainings reports.</p>	<p>Lack of sufficient capacity of the staff to adapt and use the new methods and tools.</p> <p>Insufficient human, technical and financial resources to implement the proposed methodologies.</p>	
Sub-results per component	Sub-Result 1.1: Development of a Roadmap	A Roadmap is developed and internally agreed within the NBU	As above		

	<i>Description</i>	<i>Indicators (with relevant baseline and target data)</i>	<i>Sources of verification</i>	<i>Risks</i>	<i>Assumptions (external to project)</i>
<i>(optional and indicative)</i>	for quantitative assessment of risks affecting NBFIs' performance and respective draft regulatory requirements will be developed.	Baseline: No Roadmap is available Target: By the end of the project, a Roadmap is developed and internally agreed within the NBU			
	Sub-result 1.2: Development of a Regulation ("target model" of SRM), which includes a quantitative assessment of risks and capital adequacy, risk profile.	Methodologies for quantitative assessment of risks are reflected in a draft Regulation Baseline: No methodologies for quantitative assessment of risks are reflected in NBU official documents Target: Draft Regulation is developed, internally agreed within NBU and ready for adoption by the NBU Board	As above		
	Sub-result 1.3: Development of a concept and "Roadmap" for introduction of internal capital adequacy and liquidity assessment in the	A concept and a Roadmap are developed and internally agreed within the NBU Baseline: No Roadmap is available	As above		

	<i>Description</i>	<i>Indicators (with relevant baseline and target data)</i>	<i>Sources of verification</i>	<i>Risks</i>	<i>Assumptions (external to project)</i>
	Ukrainian nonbank financial services market.	Target: By the end of the project, a Roadmap is developed and internally agreed within the NBU			
	Mandatory Result 2 / Component B: Development of risk-oriented supervision and introduction of supervisory assessment of NBFIs.	<p>Availability of internal (roadmaps, instructions for supervisory staff) and public (new regulations and amendments to existing regulations) NBU documents on the supervisory assessment process and an Early Response System</p> <p>Baseline: Existing regulations and instructions do not include risk-based supervision methodologies</p> <p>Target: By the end of the project, new Regulations and instructions will be developed in at least draft versions</p> <p>Number of supervisory assessments conducted using the newly developed methodologies</p>	<ul style="list-style-type: none"> • Resolution of the NBU Board to introduce supervisory assessment • Resolution of the NBU Board on amendments to Regulations, which regulate issues of supervisory assessment • Project reports • Training materials • Trainees lists • Evaluation trainings reports. 	As above	As above

	<i>Description</i>	<i>Indicators (with relevant baseline and target data)</i>	<i>Sources of verification</i>	<i>Risks</i>	<i>Assumptions (external to project)</i>
		<p>Baseline: in 2023, no supervisory assessments used risk-based methodologies</p> <p>Target: By the end of the project, at least 10 assessments will be carried out on pilot basis</p> <p>Number of NBU employees' trained in supervisory assessment, documentation of supervisory actions.</p> <p>Baseline: in 2023, no staff trained</p> <p>Target: by the end of the project, at least 30 NBU staff will be trained</p>			
	<p>Sub-result 2.1: Development of risk-based supervisory assessment methodologies for NBFIs</p>	<p>Instructions for supervisory staff are available in at least draft versions</p> <p>Baseline: No instructions are available on risk-based supervisory assessment methodologies</p>	As above	As above	As above

	<i>Description</i>	<i>Indicators (with relevant baseline and target data)</i>	<i>Sources of verification</i>	<i>Risks</i>	<i>Assumptions (external to project)</i>
		<p>Target: By the end of the projects, instructions will be available in at least draft versions</p>			
	<p>Sub-result 2.2: Development of a Draft Regulation on introduction of risk-based supervisory assessment of NBFIs</p>	<p>Draft Regulation is ready for adoption by the NBU Board</p> <p>Baseline: In 2023, no draft Regulation exists</p> <p>Target: By the end of the project, the Regulation is available in at least draft version</p>	As above	As above	As above
	<p>Mandatory result 3 / Component C: Development of a model of prudential requirements for NBFs.</p>	<p>NBU Regulation on NBFs include the new prudential requirements</p> <p>Baseline: No Regulation exists in 2023.</p> <p>Target: By the end of the project, draft Regulation is ready for adoption by the NBU Board.</p> <p>Number of the NBU staff trained to regulate and supervise NBFs and NBFIs-participants of banking groups on a consolidated basis.</p>	<ul style="list-style-type: none"> • NBU Board Resolution on amendments regarding the regulation of the NBFs in order to introduce standards for the NBFs • Project reports • Training materials • Trainees lists • Evaluation trainings reports. 	As above	As above

	<i>Description</i>	<i>Indicators (with relevant baseline and target data)</i>	<i>Sources of verification</i>	<i>Risks</i>	<i>Assumptions (external to project)</i>
		<p>Baseline: No staff is trained in 2023.</p> <p>Target: At least 10 NBU staff members are trained by the end of the project.</p>			
	<p>Sub-result 3.1.</p> <p>The composition of standards aimed at limiting risks, to which a NBFI is exposed as a result of participation in a NCFG, is defined.</p>	<p>A set of standards is available.</p> <p>Baseline: No set of standards in 2023</p> <p>Target: By the end of the project, a set of standards is defined and internally agreed within the NBU.</p>	As above	As above	As above
	<p>Sub-result 3.2.</p> <p>Approbation of standards is carried out with the involvement of Ukrainian NCFGs participants, limit values of standards are determined.</p>	<p>Number of NCFGs taking part in the approbation of standards.</p> <p>Baseline: No NCFGs have taken part in the approbation of standards in 2023.</p>	As above	As above	As above

	<i>Description</i>	<i>Indicators (with relevant baseline and target data)</i>	<i>Sources of verification</i>	<i>Risks</i>	<i>Assumptions (external to project)</i>
		<p>Target: At least 3 NBFG have taken part in the approbation of standards by the end of the project.</p>			
	<p>Sub-result 3.3. Development of amendments to the Regulation on regulation of NBFGs in order to introduce the standards defined.</p>	<p>A set of standards to limit risks is introduced in the NBU Regulation on NBFG.</p> <p>Baseline: In 2023, the NBU Regulation on NBFG does not include standards on limiting risks.</p> <p>Target: By the end of the project, draft amendments are prepared to the NBU Regulation on NBFG, to include new risk limiting standards.</p>	As above	As above	As above
	<p>Mandatory Result 4 / Component D: Strengthening the NBU capacity for the implementation of the EU-Ukraine Association Agreement obligations and preparing for EU accession</p>	<p>Number of NBU staff trained</p> <p>Baseline: In 2023, no NBU staff is trained in the framework of the project</p> <p>Target: By the end of the project, at least 50 NBU staff members are trained in matters related to EU accession</p>	<ul style="list-style-type: none"> • Project reports • Reports and evaluation forms from training events • NBU reports/contributions to Government reports on the EU accession process. 	As above	As above

	<i>Description</i>	<i>Indicators (with relevant baseline and target data)</i>	<i>Sources of verification</i>	<i>Risks</i>	<i>Assumptions (external to project)</i>
		<p>Number of reports/reviews prepared by the NBU on the status of implementation of commitments related to the EU Accession process</p> <p>Baseline: In 2023, no reports prepared in the framework of the project</p> <p>Target: By the end of the project, at least 10 reports are prepared on the implementation of commitments related to Ukraine's accession to the EU</p> <p>Number of bilateral and multilateral events with NBFIs regulators of EU Member States and other countries.</p> <p>Baseline: In 2023, no events are conducted in the framework of the project.</p> <p>Target: By the end of the project, at least 10 events with NBFIs regulators from EU Member States are organized.</p>			

	<i>Description</i>	<i>Indicators (with relevant baseline and target data)</i>	<i>Sources of verification</i>	<i>Risks</i>	<i>Assumptions (external to project)</i>
	Sub-Result 4.1. Recommendations for efficient EU accession negotiations, preparing information on the NBU progress for EU Enlargement Package, the implementation of the EU-Ukraine Association Agreement obligations in the nonbank financial sphere.	Recommendations on the EU accession negotiations in the areas related to NBFi regulation and supervision. Baseline: In 2023, no recommendations delivered in the framework of the project. Target: By the end of the project, a set of recommendations is available.	As above	As above	As above
	Sub-Result 4.2. Recommendations on enhancing cooperation of the NBU with EIOPA, EU MS NBFS Supervisory Authorities /Central Banks and International Organizations in the nonbank financial sphere and in international fora, including the IAIS.	Recommendations on the EU accession negotiations in the areas related to NBFi regulation and supervision. Baseline: In 2023, no recommendations delivered in the framework of the project. Target: By the end of the project, a set of recommendations is available.	As above	As above	As above
	Sub-Result 4.3. Recommendations on the organization of exchange of	Recommendations on the EU accession negotiations in the areas	As above		As above

	<i>Description</i>	<i>Indicators (with relevant baseline and target data)</i>	<i>Sources of verification</i>	<i>Risks</i>	<i>Assumptions (external to project)</i>
	experience and special knowledge system, including the establishment/involvement in expert and training platforms/Center/events for exchange/sharing expertise and special knowledge on bilateral and multilateral basis between the NBU and banking/nonbanking financial regulators.	related to NBFI regulation and supervision. Baseline: In 2023, no recommendations delivered in the framework of the project. Target: By the end of the project, a set of recommendations is available.		As above	