

June 2019

**Enhancing Capital Markets Supervision Capacities of The Albanian
Financial Supervisory Authority (AFSA) Phase 2**

STAKEHOLDER ENGAGEMENT PLAN

1. INTRODUCTION

From virtually no significant capital market activities seven years ago, Albania has experienced sizable and positive development in some capital market segments. This raises prospects for meaningful development of capital markets in the future, but also concerns about the ability of Albanian Financial Supervisory Authority (AFSA) to regulate and supervise these markets.

While the relatively newly established investment funds helped to diversify holdings of government securities in the financial system, their fast growth gives rise to potentially higher systemic risk in the country. The investment funds sector, emerging in 2012, has grown remarkably fast reaching EUR 586 million in net asset value at end September 2018. The number of investors in this market increased by 7 percent in 2017 but decreased with 7.5% during the first 9 months of 2018 to about 29,000 investors (only 6 are legal entities). There are currently five investment funds operating in the market with the largest accounting for 76 percent of market share. The market is mainly dominated by investments in government bonds (61.3 percent) inside and outside of Albania. There are two licensed fund management companies that manage both voluntary pension funds and investment funds and one that manages voluntary pension funds only. A new fund management company was licensed recently by AFSA. The lack of an established secondary market for government securities represents a key liquidity risk to the investment fund sector in the event many unit-holders simultaneously exercise their right to redeem their units.

AFSA is responsible for the regulation of capital markets, the voluntary pensions and insurance sectors. Total assets of markets under AFSA's supervision in relation to GDP amounted to 6.9 percent in June 2018 (4.7 percent for the investment fund market, 2.1 percent for the insurance market and 0.1 percent for the pension market). The financial sector in Albania is dominated by the banking sector, with total assets at 97% of GDP

AFSA – with support of donor funded technical assistance (TA) – has been working on strengthening its legal and regulatory framework and implementation capacity. In 2015 the World Bank provided SECO funded Technical Assistance (TA) to AFSA through Strengthening Supervision Capacities of AFSA Project (Phase 1) with focus on capital market development. It supported AFSA in strengthening its capacities to supervise the Investment Funds sector, and the Corporate & Municipal Bonds issuance. With capital market complexities arising, AFSA requires continued support in line with its recently approved 5-year development strategy. In particular, AFSA needs continuous support in implementation of its legal framework, further enhancements of its operational and professional capacities, in upgrading its supervisory capabilities, and in supporting development of capital market. The strategy takes stock of the recommendations and changes effected or proposed through the donor technical assistance AFSA has received during the Phase 1 TA project. AFSA approached the World Bank with the request to continue the support in the areas of investment funds and securities issuance and trading in line with its strategic framework.

Considering the rapid development of the investment fund sector since 2012, AFSA expects other capital market activities to emerge in the near to medium-term, especially with regards to the issuance of corporate bonds. There is no public issuance of securities other than government bonds and a limited (but increasing) volume of privately placed bonds and commercial papers. Several corporations have issued bonds, albeit through private offers, and market sources indicate increased interest on public issuance of corporate and municipal bonds. A new, private securities exchange in Albania has recently been licensed and has started its operations by mid-February 2018 focused on trading government debt for one year and will then move on to other assets. There is a need for a central securities depository for

non-government securities – AFSA is currently assessing the institutional framework and options for its development. There are seventeen securities brokers, nine banks and post office who largely trade government bonds over-the-counter (OTC). The banks also act as custodians. Finally, there are two licensed investment advisers.

2. Project Description

The Phase 1 TA project closed on 31st March 2019. It has been important in upgrading AFSA's capacities to supervise capital market activities. It has been key in improving the strategic thinking at AFSA about market development, shaping its institutional organization, enhancing technical capacities of staff, drafting new core legislation for investment funds and capital markets, as well as developing a new risk-based investment funds supervisory approach. Overall, the project was considered successful, and the resultant contribution is highly valued by AFSA. As a result, continued support has been requested by the authorities in a second phase of the project.

The Phase 2 Technical Assistance Project, to which SECO agreed to provide new financing, will aim to support AFSA in implementing selected parts of its ambitious and far reaching Strategy for 2018-2022 by (i) strengthening its capacity to regulate and supervise the capital markets and to (ii) boost market development for capital market products through increased financial awareness and education, and stimulation of Financial Innovation.

This project is expected to help AFSA to strengthen its capacity to supervise capital markets and support capital market development through:

- 1) Drafting and adoption of all implementing regulations following the approval of the new capital markets law;
- 2) Effective implementation of risk-based supervision of capital markets;
- 3) Strengthened capacity to enforce the new capital markets and investment funds laws;
- 4) Increased awareness and understanding of capital market activities;
- 5) Strengthened capacities of staff to understand, supervise and regulate technology driven developments.

The technical assistance in this 2nd phase will build on, and complete the work carried under the 1st phase of SECO funded support. The following activities will be covered by the project:

(1) Strengthening AFSA's regulatory and supervisory function

- a) *Component 1:* The project will help with preparation of all regulations foreseen in the law (as per the official version approved by the parliament).
- b) *Component 2: Further strengthen AFSA's risk based supervision.* As per its strategy AFSA will maintain the focus on developing application of contemporary supervisory methods. To this aim, AFSA has identified the following areas that can be covered:
 - (i) *Sub-component 2.1.:* Provide advice to AFSA on (i) the type/kind of data to be collected from licensed intermediaries and the use of these data from AFSA supervisors, (ii) provide capacity building on the use of the reports for supervision purposes.
 - (ii) *Sub-component 2.2:* Provision of advice to AFSA on the development of an enterprise risk management environment within AFSA including documenting of internal and external risks to its regulatory objectives.

- c) *Component 3: Development of AFSA's capacity to monitor and supervise securities markets:*
- (i) *Sub-component 3.1: Development of inspection, investigation and enforcement capacity in relation to securities markets and investment funds.*
 - (ii) *Sub-component 3.2: Assistance in relation to improvement of Market Surveillance Systems.*
 - (iii) *Sub-component 3.3: Hiring of peripatetic advisor(s) that will provide on-job regulatory and supervisory support and guidance to AFSA.*

2. Support AFSA in its Capital Market Development Efforts

Component 4: Promoting market development:

- (i) This component will support AFSA in implementing few select activities related to awareness raising and financial education targeting potential groups of issuers and investors.
- (ii) Support will be provided to AFSA to address opportunities and challenges from increased use of technology by entities operating in the market.

Project is implemented by the AFSA in cooperation with the Contracting Unit (CFCU) at the Ministry of Finance which is responsible for the fiduciary aspects of project implementation. Mostly international consultants will be hired for the implementation of project. Local consultancy may be used only for executing selected segments of financial awareness/education activities

3. Summary of previous stakeholder engagement

The Phase 1 project helped to draft two new important laws, the draft-law on Collective Investment Undertakings and the draft-law on Capital Markets. In addition, several new regulations related to investment funds and bonds issuance were approved and amended. In all the cases, AFSA has held consultations with all affected and related stakeholders, including public and private institutions and supervised intermediaries. In spring-summer 2017, when the drafting process of the laws started, AFSA held awareness workshops with stakeholders, including government stakeholders, members of parliament and financial sector representatives. AFSA discussed working version of the drafts with the existing market stakeholders during 2018. The drafts have also been made public (official web page of AFSA 2nd half of 2018, and Government's public consultations page, first quarter 2019) in order to provide a chance for the wider public to comment on the drafts.

AFSA has informed the Ministry of Finance and Economy (which also formally submitted the request for Phase 2 of the project to the WB), and the Bank of Albania on the intention for implementing a Phase 2 WB TA project funded by Swiss SECO. The intention for the new project has also been made public in AFSA's annual reporting to Parliament.

4. Identification of Project Stakeholders

The technical assistance provided under the original project and the newly proposed Phase 2 targets AFSA as the main beneficiary, however there are various groups of stakeholders that are indirectly affected by the projects. In order to define a communication process with the stakeholders, several groups that may be interested and/or affected by the project implementation have been identified. There are a number of groups of institutions and people who are interested in the Project on different levels. In particular for this Project, these may be identified as following:

- (i) Affected stakeholders
 - a. AFSA staff (supervision, legal, research/fin education/PR, human resources) – a part of staff members will be directly involved in implementing and benefiting from the project, while other broader staff in AFSA need to be aware of the project outputs as these may indirectly affect their work.
 - b. Licensed entities operating in capital markets (asset management companies, banks, securities brokers and advisors, stock exchange, securities depositories and custodians) - regulatory and supervisory regime will be strengthened which will make their activity sounder and less risky but also maybe costlier.
- (ii) Other Interested parties
 - a. Institutions: Bank of Albania, Ministry of Finance and Economy – these are involved along with AFSA through the Financial Stability Advisory Group in safeguarding the stability of the financial system in Albania. Therefore they have an interest on project implementation and outcomes.
 - b. Potential new market entrants (local and foreign) which will carry out regulated capital market activities or supporting services (technology services for instance).
 - c. Investing public since project activities will expectedly impact the risks in the market, investment opportunities, and quality of services provided by licensed capital market intermediaries.

5. Stakeholder Engagement Plan

Stakeholder engagement is a continuous process that began prior to the development of this SEP (since Phase 1 of the project) and will continue through the life of this project. AFSA and the Project Implementation team will be in active communication with the stakeholders determined throughout the life of the project. The following methods and materials will be used within the scope of the engagement from start of implementation till the project closes:

Stakeholder Groups	Information to be shared	Engagement method		Responsibilities
<i>Affected Stakeholders</i>				
		<i>Action</i>	<i>Expected timeline of consultations/information</i>	
AFSA staff	AFSAs key supervision staff will receive all technical outputs of the project – they will be part of the implementation. AFSA broader staff will be provided with regular information.	Output document sharing by PIT* AFSA broader staff will receive summary reports and access to outputs (internal sharing platform). Also informed (and feedback collected) through internal management meetings.	Continuously. Regular internal technical meetings to brainstorm, implement, adjust. Quarterly Internal Management meeting (General Executive Director with AFSA units directors)	PIT, AFSA senior management AFSA senior management and PIT

Licensed entities operating in capital markets	<p>General information about the project</p> <p>Drafts of new regulatory acts, and reporting requirements, and supervision approach at AFSA – all affecting directly the supervised entities.</p>	<p>Project launch event, and subsequently regular project implementation updates in AFSA's web page and public communications</p> <p>The new regulatory acts and reporting requirements will be shared since preparatory stage with these stakeholders and their feedback collected. AFSA has an established process in consulting the new regulatory acts with the supervised entities. All the acts are disclosed on AFSA's official web page for adequate time periods (min 2 weeks) , and consultations meetings are held with the supervised entities. As it was the practice in Phase 1, project international consultants will hold awareness, and technical discussion meetings with the licensed entities (and prospective ones). Finally there is a feedback loop, with comments received being incorporated into the drafts.</p>	<p>Immediately after grant agreement is made effective – expectedly in January 2020.</p> <p>Project implementation updates (bi-annually) in AFSA's web page</p> <p>Capital market law draft regulations will be shared expectedly in Q4 2020.</p> <p>Drafts of New reporting requirements and risk matrix to be shared expectedly by Q4 2021</p>	<p>PIT, AFSA management</p> <p>PIT, AFSA management, Consultants</p>
Other Interested Parties				
Institutions: Bank of Albania and Ministry of Finance and Economy.	<p>Regular summary information on the project implementation. New regulatory acts</p>	<p>AFSA will provide information through the Financial Stability Advisory Group meetings. In addition, Progress semi-annual progress report serves to provide more detailed information on project implementation. BoA will receive for comments draft regulations that affect entities which are jointly supervised by AFSA and BoA. Drafts of new regulatory acts will be published on AFSA's web page.</p>	<p>Usually FSAG meets quarterly.</p>	<p>AFSA management, PIT</p>
Potential new market entrants	<p>Regular information on project implementation. New regulatory acts for comments</p>	<p>Regular project implementation updates in AFSA's web page and public communications.</p> <p>New regulatory acts drafts will be published in the AFSA web page for comments (min two weeks) of all interested stakeholders.</p>	<p>bi-annually</p> <p>expectedly Q4 2020</p>	<p>PIT, AFSA management</p>

Vulnerable stakeholders				
Investing public including individuals and legal entities	Regular public information and awareness/fin education activities events and materials.	Regular project implementation updates in AFSA's web page and public communications (mass media, news paper articles, AFSA reports and publications) The project envisages financial education activities targeted at investors including individuals with savings who are willing to invest in order to help them take informed decisions on future investments.	bi-annually Expectedly by Q4 2022	PIT, AFSA respective units handling PR and financial awareness/education. PIT, Consultants

*Project Implementation team

6. Disclosure of Project Documents

AFSA intends to make available the relevant information to all groups of stakeholders. The channels of information dissemination, feedback collecting, and public outreach are:

- (i) AFSA web page (amf.gov.al) – public availability of drafts of regulatory acts, other supervisory/regulatory documents (reporting templates, technical notes), awareness and financial education materials and information, regular project update (bi-annually). AFSA web page contains contact information for AFSA for any interested party to contact about project topics.
- (ii) Financial Stability Advisory Group meetings – memo and presentation by AFSA management on project developments that affect the financial markets.
- (iii) Direct formal communication (official letters, emails) with BOA/MOFE and supervised (and potential) market operators.
- (iv) Public events – Launch event (tentatively in November 2019), awareness and financial education conferences/workshop activities (to be developed) where visual and written materials will be provided.

7. Grievance Redress Mechanism

The Phase 2 TA project is mostly focused on providing TA to AFSA on their supervisory/regulatory needs and therefore expectation for complains by external parties is low. AFSA has an established internal process for receiving comments on the new regulatory acts it drafts, addressing the comments and reaching out to the commenting parties with the relevant answer and explanation on their concerns or comments. This is part of a broader “Transparency Program” of AFSA in compliance with the Law on AFSA and law on “Right of Information”. The Transparency Program, as approved by AFSA board is described in detail in the AFSA web page: <https://amf.gov.al/informimi.asp?id=1#>

According to the transparency program, the new draft acts, upon their preparation by AFSA are published in the AFSA web page, under the “**Legislation**” Menu, “**Draft Acts**” sub menu. Comments received are

handled by the Legal Department – comments are discussed in the working group that has prepared the draft law and relevant changes are effected as necessary. AFSA then publishes the final draft.

The transparency program also describes the modalities of receiving requests for information and complaints by the interested parties. The program in the AFSA webpage provides the the relevant forms for submitting requests and complaints, as well as for checking the status of the request/complain: <https://crm.amf.gov.al/>. AFSA maintains a public register of requests/complains and their addressing: <https://amf.gov.al/informimi.asp?id=2&r=1>

AFSA provides contact details in its page for interested parties:

<https://amf.gov.al/kontakt.asp>

as well has a designated coordinator for the transparency program:

<https://amf.gov.al/informimi.asp?id=3>