



NÁRODNÁ BANKA SLOVENSKA  
EUROSYSTEM



# REPORT ON THE ACTIVITIES OF THE FINANCIAL MARKET SUPERVISION UNIT OF NÁRODNÁ BANKA SLOVENSKA

DOCUMENTS  
REPORTS  
ANALYSES  
INFORMATION

2009



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# 1. Introduction

This Activity Report of the Financial Market Supervision Unit of Národná Banka Slovenska (hereinafter 'the Report') has been prepared to inform the professional community about the activities of the Financial Market Supervision Unit (hereinafter 'the Supervision Unit'), with emphasis on evaluating its rulemaking, licensing, supervisory, analytical and international activities and its cooperation with other institutions.

The general procedural rules followed by Národná banka Slovenska in supervising the financial market in the areas of banking, the capital market, insurance, and pension savings are laid down in Act No. 747/2004 Coll. on Supervision of the Financial Market and on amendments to certain laws, as amended (hereinafter referred to as 'the Financial Market Supervision Act').

In 2009, the Supervision Unit was managed by the Deputy-Governor of Národná banka Slovenska. Since February 2010, it has been managed by the member of the NBS Bank Board and executive director responsible for the supervision and regulation of financial markets. A list of the laws pertaining to NBS's financial market supervision, a list of the entities and groups of entities under supervision, and the organisational chart of the Supervision Unit for 2009 are given in the Annex to this Report.

Under the Financial Market Supervision Act, the Supervision Unit exercises on-site and off-site supervision, conducts proceedings and takes decisions at first instance, and drafts the generally binding legal regulations that Národná banka Slovenska issues for the regulation and supervision of the financial market, especially prudential regulations, operational security rules, and other requirements for the business activities of entities under supervision.

When exercising supervision, the Supervision Unit acts on its own, independently and impartially, in accordance with the Financial Market Supervision Act, related laws, and other generally binding legal regulations. In its first-instance proceedings and decisions, the Supervision Unit is bound by the second-instance decisions of the Bank Board of NBS and by any rulings of a competent court issued under judicial review of NBS decisions in accordance with administrative law. Appeals against first-instance decisions of the Supervision Unit are settled by the Bank Board of NBS.

For its supervisory activities, Národná banka Slovenska receives statutory annual contributions from the supervised entities, as well as fees for acts performed or for proceedings conducted during supervision. The rates of annual contributions are set by the Bank Board of NBS; the fees are fixed in NBS Decree No. 8/2008 concerning fees for acts of Národná banka Slovenska, as amended by NBS Decree No. 2/2009 and NBS Decree No. 11/2009.

The Report is divided into five parts. The first part is devoted to the rulemaking activities of the Supervision Unit, and to legislative changes concerning the financial sector. The second part describes the licensing activity of the Supervision Unit, enforcement proceedings, and customer protection. The third part of the Report focuses on the exercise of supervision over financial sector participants. This part provides information about on-site supervisions and off-site supervision. The fourth part is devoted to cooperation with foreign supervisory authorities, participation in international institutions, cooperation with sectoral associations, various findings, and other activities. The fifth part contains annexes.

## 2. Summary

The ongoing global financial and economic crisis was reflected in the **rulemaking and methodological activities** of the Supervision Unit, through its drafting of related legal regulations that Národná banka Slovenska is authorised to issue and through its cooperation with the Ministry of Finance of the Slovak Republic in the preparation of legislation.

The purpose of the new regulations was to create a legal framework within which to effectively fight the global financial crisis in Slovakia. One of the most significant laws in this regard is Act No. 276/2009 Coll. of 19 June 2009 on measures to mitigate the effects of the global financial crisis on the banking sector and on amendments to certain laws, which, preventive in character, allows the provision of stabilisation aid to banks and amends several laws pertaining to the financial market.

The Supervision Unit was also involved in the adoption of another major legislative change: Act No. 186/2009 Coll. on Financial Intermediation and Financial Counselling and on amendments to certain laws. The aim here was to regulate financial intermediation and financial advisory services for the whole financial market and to introduce the same rules for the performance of intermediation activities and financial advisory services in different sectors of the financial market.

As for the pension savings sector, an amendment to the Retirement Pension Saving Act introduced changes concerning the fees charged by pension fund management companies for the performance of their activities. Also in 2009, similar changes were implemented in regard to supplementary pension savings. The significance of these amendments will, however, only be possible to assess after a longer period of time.

Among legislation adopted at the European level, special mention should be made of the approval of the Solvency II Directive, which provides for a higher quality assessment of risks related to the business of insurance market participants, as well as effective capital allocation.

In the area of **licensing**, the Supervision Unit issued a total of 826 decisions in 2009, most of which concerned the capital market (357), the banking sector (163), the insurance sector (155) and the pension savings sector (124). Besides issuing decisions, the Supervision Unit received numerous notifications from supervised entities in all sectors of the financial market, approved securities prospectuses, and evaluated takeover bids. In 2009, a total of 45 first-instance proceedings were held in regard to sanctions or remedial measures, resulting in 28 decisions either to impose sanctions or remedial measures or to suspend the proceedings.

One of the tasks that the Supervision Unit is charged with, under the NBS Act and Financial Market Supervision Act, is to protect the customers of financial market participants by handling petitions made by customers of financial institutions that are subject to NBS supervision. In 2009, the Supervision Unit received 933 customer petitions expressing dissatisfaction with the actions of financial service providers. Of these petitions, 463 concerned the insurance sector and 278 the banking sector.

A substantial part of the Supervision Unit's activities consists of **supervisory activities**, i.e. the actual exercise of supervision over financial market participants through on-site supervisions and off-site supervision. In 2009, the Supervision Unit carried out a total of 65 on-site supervisions, of which 44 were comprehensive supervisions, 14 were thematic supervisions, and 8 were follow-up supervisions. The on-site supervisions were concentrated mainly on insurance and reinsurance intermediaries and investment services intermediaries (accounting for 19 of the total supervisions), banks (13) and insurance companies (9). The on-

site supervisions were conducted in line with the annual plan of supervision, specifying the schedule and main focus of supervisions at particular financial market participants. Financial market participants are also subject to off-site supervision, the purpose of which is to periodically monitor and evaluate the financial position and risk profile of supervised entities. Analyses of individual banks are produced for the requirements of the Supervisory Department and NBS Management. Although these analyses are usually produced on quarterly basis, they may, if necessary, be produced on a monthly basis, too. The analysis reports cover asset and liability developments, interbank transactions, the credit portfolio, the financial instruments portfolio, customer deposits, and foreign-exchange positions. A separate part of the analysis is devoted to financial results, liquidity, prudential business indicators, and the effect of stress scenarios. The analytical basis is used in the internal capital adequacy assessment process and the risk profile assessment of banks – this applies both in direct dialogue with banks and, in the case of banks that are subsidiaries of foreign banks, in follow-up communication with the home supervisor at meetings of supervisors. In 2009, much attention was focused on bank strategy changes, credit risk, liquidity, concentrations and the ability of banks to cope with adverse situations related to their risk exposures. In the area of pension savings, stress testing results were used to evaluate the scenarios under which particular types of pension funds would record the largest losses, and the profits of pension funds were compared. The *Early Warning System* integrated information portal was put into operation in 2009, adding a new webtop and visualisation to the functionality of the original information system. Emphasis is also being placed on the independent validation of the valuation of financial instruments included in the assets of supervised entities.

As regards cooperation with foreign regulators, the process of establishing colleges of supervisors in line with EU law continued in 2009. A number of multilateral cooperation agreements were signed between supervisory authorities, and meetings were held of the supervisors of banking groups that operate in Slovak territory. Apart from this type of cooperation, members of the Supervision Unit's staff were actively involved in the activities of various working groups and committees established to monitor financial stability within the EU and to address various issues in all areas of the financial market.

**The analytical activities** of the Supervision Unit are carried out at different levels of its organisational structure. Analyses of the financial sector as a whole are largely macroprudential in nature, and their main focus is on identifying medium-term and long-term risks to financial sector stability. The principle of their identification is based on a thorough knowledge of the financial sector and at the same time on monitoring and analysing trends and risks in the real economy and financial market. The analyses also include links to supervisory activities, since supervision should to a large degree constitute a timely response to potential risks in the financial sector. Analytical activities are divided into the periodic monitoring of trends in individual financial institutions and the financial sector as a whole, and the monitoring of developments in the real economy and financial markets. The purpose of monitoring is to identify all relevant trends that could have a significant effect on the stability of the financial sector as a whole. The principal publication in this area is the *Analysis of the Slovak Financial Sector*. In 2009, analytical activities were influenced by the ongoing financial and economic crisis. During the course of the year, when the financial crisis grew into an economic crisis, analytical activities became more focused on the evaluation of how adverse trends in the real economy were affecting the stability of the banking sector. Much attention was devoted to stress testing, which has the role of quantifying the financial sector's sensitivity to negative developments in the real economy and financial markets. A separate part was focused on improving models and the risk assessment system.



### 3. Rulemaking and methodological activities

The ongoing global financial and economic crisis was reflected in the **rulemaking and methodological activities** of the Supervision Unit, through its drafting of related legal regulations that Národná banka Slovenska is authorised to issue and through its cooperation with the Ministry of Finance of the Slovak Republic in the preparation of legislation. The purpose of the new regulations was to create a legal framework within which to effectively fight the global financial crisis in Slovakia.

A significant initiative was the adoption of **Act No. 276/2009 Coll.** of 19 June 2009 on measures to mitigate the effects of the global financial crisis on the banking sector and on amendments to certain laws – the so-called "Anti-Crisis Act". Although this law is similar to laws adopted in other EU Member States in 2008 and 2009, it differs in that it was adopted for preventive reasons and in order to strengthen legal certainty for the public sector, Národná banka Slovenska and commercial banks on the question of how to proceed in the event that a bank experiences a crisis financial situation. Under the Act, stabilisation aid to a bank may be provided through a monetary contribution to the bank's registered capital in exchange for ordinary or preference shares (recapitalisation), or a special guarantee in exchange for bonds issued by the bank, or a loan to the bank. Stabilisation aid is available only on a voluntary basis, where the bank submits an application to the Ministry of Finance of the Slovak Republic. The Act stipulates that the merits of such application are to be assessed by Národná banka Slovenska, taking into account the applicant bank's financial position, its systemic significance and how it proposes to use the aid. The decision on whether to provide the aid is taken by the Government. The draft Act was notified to the European Central Bank and submitted to the European Commission for approval as a state aid scheme. Each institution responded with a favourable opinion, and on 8 December 2009 the European Commission issued its decision to approve the state aid scheme. The latest date for entering into a Stabilisation Aid Agreement under this Act is 31 December 2010.

The "Anti-Crisis Act" amends also certain statutes concerning particular sectors of the financial market. This mainly concerns the strengthening of so-called "subordinated bonds", which can go some way to supporting the development of the capital market. The Anti-Crisis Act thus amended the Commercial Code provision concerning subordination obligations which relate to a claim that is assigned or transferred (whether for payment or not), so that the provision stipulates that the subordination obligation in its full scope passes to the assignee or the transferee. This is essential for preserving the effects of a subordination obligation where the creditor of the claim relating to the subordination obligation is changed. Otherwise, the purpose and grounds of a claim related to a subordination obligation would cease to exist following a change of the creditor, and that could pose a risk to customers of the respective debtor, which may be, for example, a financial institution.

In order to ensure that this Commercial Code amendment applied also to securities that are subject to a subordination obligation ("subordinated bonds"), it was necessary to amend also certain provisions of Act No. 7/2005 Coll. on bankruptcy and restructuring (in regard to the position of non-equity securities in bankruptcy proceedings), Act No. 566/2001 Coll. on securities and investment services (in regard to the Rules of Operation of the Central Securities Depository of the Slovak Republic and to the need for introducing separate recording of securities that are subject to a subordination obligation). The key point here was that, in the area of banking regulation, consideration could now be given to easing the strict condition whereby banks were not permitted to set off subordinated liabilities against the

value of their own funds where those liabilities were in the form of securities. The condition had already been eased towards the end of 2008 with effect from 1 January 2009.

Another significant initiative under the "Anti-Crisis Act" was the amending of the Banking Act in respect of the reporting of banks' large exposures to other entities or groups of entities. Thus, in accordance with EU Directive 2006/48/EC, banks were permitted on the basis of an application to exempt entities from their group of connected entities under precisely defined conditions and to relax their own large exposure limits by transferring their exposures vis-à-vis subsidiaries to other entities. The aim in amending these exemptions was to increase the effectiveness of banks' activities in regard to the changing conditions of the internal market and to support banks in their conduct of business through subsidiaries in the internal market, while at the same time optimising the supervisory framework of banks.

The Anti-Crisis Act also amended provisions of the Insurance Act. As a consequence, NBS may now commence proceedings against a responsible actuary for a breach of duties laid down in the Insurance Act and may suspend until the end of the proceedings the actuary's authorisation to work as an actuary (with the suspension of the authorisation recorded in the list of actuaries. Another change brought by this Act is to extend the set of documents that an insurance company, branch of an insurance company from another Member State or the branch of a foreign insurance company are required to store in respect of insurance contracts and reinsurance contracts, including their amendments and documents related thereto, as well to protect them against damage, tampering, destruction, loss, theft, divulgence, misuse and unauthorised disclosure. The Act also introduces several changes concerning the regulation of supervision, in particular, it defines the scope of supervision, forced administration, the transfer of insurance or reinsurance portfolios, and the revocation of an authorisation for the performance of insurance activities or an authorisation for the performance of reinsurance activities. Under the provisions on the revocation of authorisations for the performance of insurance or reinsurance activities, there is added the new condition that if a supervised entity obstructs the performance of a supervision, or obstructs the performance of a supervision after the imposition of a procedural fine, NBS will be entitled to revoke its authorisation to perform the stated activities.

Also in 2009, the Slovak Parliament approved Act No. 487/2009 Coll. which amended the Commercial Code and which at the same time amended Act No. 429/2002 Coll. on stock markets. The main purpose of this amendment was to implement Directive 2007/36/EC of the European Parliament and of the Council of 11 July 2007 on the exercise of certain rights of shareholders in listed companies. The key change is to the definition of a public joint stock company, which is now deemed to be a company whose shares are admitted to trading on a regulated market in any of the countries that are signatory to the Agreement on the European Economic Area. At the same time, it provides more detailed regulation of the conditions under which a public joint stock company may be converted to a private joint stock company. The Act also regulates conditions for correspondence or electronic voting by shareholders of public joint stock companies.

In April 2009, the Slovak Parliament approved **Act No. 186/2009 Coll.** on Financial Intermediation and Financial Counselling and on amendments and supplements to certain laws. The Supervision Unit was involved in the drafting of this Act through a joint working group with the Ministry of Finance of the Slovak Republic. The Act is based on the policy for consumer protection in the financial market, which the Slovak Government approved back in 2007. The purpose of the Act is to ensure that the regulation of financial intermediation and financial advisory services is the same throughout the financial market. To this end, it

introduces basically the same rules for the performance of intermediation and advisory activities in the sectors of insurance and reinsurance, the capital market, supplementary pension savings, lending, and deposit taking. Until the adoption of this Act, intermediation had been regulated by Act No. 340/2005 Coll. as amended, the Securities Act, and the Supplementary Pension Savings Act. Since the beginning of 2010, Národná banka Slovenska has been exercising supervision over financial intermediation and financial advisory services in accordance with the new Act. Under the Act's enabling clauses, Národná banka Slovenska also has the authority to issue several implementing measures, for example, in regard to the licensing, registration and reporting of financial agents and financial advisors. Národná banka Slovenska is also required by this Act to oversee the professional examinations of financial agents and financial advisors.

In connection with the entry into force of Act No. 186/2009 Coll. on Financial Intermediation and Financial Counselling (and on amendments and supplements to certain laws), a number of amendments to Act No. 8/2008 on insurance (and on amendments to certain laws) as amended entered into force as of 1 January 2010. Among these amendments is the introduction of an obligation on insurance companies, reinsurance companies and branches of foreign insurance or reinsurance companies, under which they may employ for the purpose of financial intermediation only persons who are listed in the Register of Financial Agents, Financial Advisors, Financial Intermediaries from other Member States in the Insurance or Reinsurance Sectors and Tied Investment Agents and who are authorised to perform the respective activities. Insurance companies, reinsurance companies and branches of foreign insurance or reinsurance companies are also required to ensure that any of their staff who, as part of their job, come into contact with non-professional customers meet the requirements stipulated for the basic level of professional competence under the Intermediation Act; the companies must also verify the professional competence of these staff and keep a list of them. Another substantial amendment was to extend the rights of the policyholder so that before entering into an insurance contract he must be informed in writing of the terms and conditions under which the insurance contract is to be signed. For this purpose, the insurer is to use the respective template form set out in an NBS Decree.

Národná banka Slovenska supported measures taken to mitigate the effects of the global financial crisis also by amending other legal regulations. The exercise of supervision over banks and branches of foreign banks in 2009 revealed certain cases where credit risk had been underestimated and insufficient provisions had been created, i.e. banks were not taking a uniform approach to provisioning. In response to this situation, an amendment to the Banking Act (adopted under Act No. **492/2009 Coll.** and entering into force as from 1 December 2009) laid down a consistent basis for the calculation of credit risk arising from a bank's asset holdings. Under this amendment, banks are required to value all positions recorded in the banking book and, in doing so, to take account of the degree of credit risk. When calculating credit risk, banks are to have particular regard to the expected losses arising from the impairment of their assets.

An amendment to the Banking Act contained in the new Payment Services Act brought an important change in regard to the Register of Bank Loans and Guarantees maintained by Národná banka Slovenska. On one hand, it obliges Eximbanka, the state-owned export and import bank, to submit to the Register of Bank Loans and Guarantees data regarding its lending to exporters and importers, and, on the other hand, it allows Eximbanka to acquire data from the Register. This amendment relates to the statutory expansion of Eximbanka's field of competence and its move into competitive banking activities.

As for the pension savings sector, which falls within the competence of the Slovak Ministry of Labour, Social Affairs and Family ("MPSVR"), several laws amending the primary legislation in this area were adopted during the course of 2009. Particularly significant in this regard was **Act No. 137/2009 Coll.** of 11 March 2009 amending Act No. 43/2004 Coll. on retirement pension saving and on amendments to certain laws as amended. This Amendment Act almost exclusively focused on changes concerning the fees that pension fund management companies are entitled to charge savers for the management of their assets. By introducing a fee for increasing the value of a pension fund's assets and relaxing the rules for comparing the performance of pension funds, the amendment aims to give pension fund managers an added incentive to grow the assets in savers' personal pension accounts. By also reducing the pension fund management fee (by more than half), introducing the compulsory growing of assets in conservative pension funds, and imposing a statutory duty to establish a guarantee account (for the partial coverage of investment losses), this amendment affected the financial results pension fund management companies. The Act also introduced six-monthly evaluations of investment decisions of pension fund management companies. As for the amendment's impact on the activities of supervised entities and on their operation in the retirement pension saving market in Slovakia, it will be possible to assess only after a longer period of time.

Towards the end of 2009, MPSVR instigated similar changes in the supplementary pension savings sector under **Act No. 557/2009 Coll.** of 2 December 2009 amending Act No. 650/2004 Coll. on Supplementary Pension Saving and on amendments to certain laws as amended, and amending Act No. 575/2001 Coll. on the organisation of the Government's activities and the organisation of the central state administration as amended. This Act introduced a fee for increasing the value of assets in supplementary pension fund, with its rate to rise gradually (over the next ten years). At the same time, the rate of the management fee for a supplementary pension fund will come down gradually over the same period (by contrast, the retirement pension fund management fee fell in the space of a few months). Provisions on cancellation fees and switching fees were also amended so that their redistribution better corresponds to the nature of supplementary pension saving. The Act also amended provisions on the performance of depository activities for supplementary pension asset management companies, since until its adoption there was no separate regulation for supplementary pension saving. The formulation of these provisions was partly taken from laws in the areas of supplementary pension saving and collective investment.

As for legal provisions on investment in retirement pension schemes (from the view of the supervisor and certain fund managers), they were significantly amended by **Act No. 572/2009 Coll.** of 2 December 2009 amending Act No. 461/2003 Coll. on social insurance and amending certain other laws. This Act relaxed conditions for the acquisition of certain types of securities for pension fund assets by lowering the requirements for their credit rating. Given the relatively short period since the commencement of this Act, as well as the preceding parametric changes (the adoption of Act No. 137/2009 Coll.), it has not yet been possible to give a clear assessment of its effects.

### **Payment institutions and electronic money institutions**

The term 'payment institutions' is defined in Directive 2007/64/EC of the European Parliament and of the Council of 13 November 2007 on payment services in the internal market. The Directive regulates the provision of payment services and lays down rules concerning the transparency of conditions and information requirements for payment services,

and the respective rights and obligations of payment service users and payment service providers in relation to the provision of payment services as a regular occupation or business activity. The Directive introduced 'payment institutions' as a new category of payment service providers. Member States were required to transpose this Directive into their national law before 1 November 2009. In Slovakia, it was transposed into national law by the adoption of **Act No. 492/2009** Coll. of 4 November 2009 on payment services and on amendments to certain laws, which entered into force on 1 December 2009. This Act replaces and repeals Article I of Act No. 510/2002 on the payment system. Like the Payment Services Act, however, it continues to implement Directive 2000/46/EC on the taking up, pursuit of and prudential supervision of the business of electronic money institutions. Act No. 492/2009 also retains the application of Article 8 (Waiver), as it was applied in Act No. 510/2002.

As for the issuance of electronic money, this area was regulated at the EU level by Directive 2000/46/EC, which over previous years was transposed into Slovak law through Act No. 510/2002 Coll. on the payment system. This implementation continued through a number of amendments adopted in 2008 and it was subsequently reflected also in secondary legislation issued in 2009. One of the most notable amendments was the implementation of Article 8 on the waiver of provisions laid down in the Directive. The purpose of the waiver is to enable entities to acquire under less strict requirements an authorisation for the restricted issuance of electronic money. After obtaining an authorisation for the restricted issuance of electronic money, these 'waived' electronic money institutions should aim to acquire a licence for the full scope activities related to the issuance of electronic money.

### **3.1 Legislation adopted in 2009 concerning the Slovak financial market**

- Four amendments to Act No. 483/2001 Coll. on banks and on amendments to certain laws. The most substantial amendment to the Banking Act was contained in Act No. 492/2009 Coll. on payment services and on amendments to certain laws
- Four amendments to Act No. 566/2001 Coll. on securities and investment services (the Securities Act)
- An amendment to Act No. 429/2002 Coll. on the Stock Exchange (the Act was amended through the amendment made to the Commercial Code by Act No. 487/2009 Coll.)
- Act No. 276/2009 on measures to mitigate the effects of the global financial crisis on the banking sector and on amendments to certain laws
- Act No. 492/2009 Coll. on payment services and on amendments to certain laws – it also amended the Financial Market Supervision Act (by adding the supervision of branches of insurance companies from other Member States and branches of reinsurance companies from other Member States within the scope stipulated by the Financial Market Supervision Act and separate regulations)
- Act No. 186/2009 Coll. on financial intermediation and financial advisory services and on amendments to certain laws.

### **3.2 Legislation adopted in 2009 concerning particular sectors of the Slovak financial market**

### 3.2.1 Banks and investment firms

Národná banka Slovenska contributed to the fight against the global financial crisis by the adoption of **Decree No. 5/2009** amending Decree No. 18/2008 of Národná banka Slovenska on the liquidity of banks and branches of foreign banks and the process of liquidity risk management of banks and branches of foreign banks, and on the amendment of Decree No. 11/2007 of Národná banka Slovenska concerning the submission of statements, reports and other disclosures by banks, branches of foreign banks, investment firms, and branches of foreign investment firms for supervision and statistical purposes. Given the effect of the financial markets situation on the cash flows of banks and branches of foreign banks, the purpose of this Decree was to strengthen the requirement to lend to business entities so as to mitigate the impacts of the global financial crisis on the Slovak economy. This led to a reassessment of the liquid asset ratio as set by Decree 18/2008, taking into account the new information that had come into Národná banka Slovenska's possession since autumn 2008, as well as certain conclusions that arose from discussions with representatives of the Slovak Banking Association during the relevant period.

In regard to the emergence of 'payment institutions' and to the sharply rising interest among market participants in the issuance of electronic money, NBS amended Decree No. 8/2008 of Národná banka Slovenska on fees for acts performed by Národná banka Slovenska by issuing **NBS Decree No. 11/2009** on the Register of Financial Agents, Financial Advisors, Financial Intermediaries from other Member States in the Insurance or Reinsurance Sectors and Tied Investment Agents and on the amendment of NBS Decree No. 8/2008 on fees for acts performed by Národná banka Slovenska.

Act No. 510/2002 Coll. on the payment system and on amendments to certain laws as amended empowered Národná banka Slovenska to issue a decree regulating the legal formalities for the issuance of an authorisation under a waiver. This enabling provision served as the basis for the issuance of **NBS Decree No. 2/2009** laying down the elements of an application for authorisation to issue electronic money payment instruments as defined in Section 21d of Act No. 510/2002 Coll. on the payment system and on amendments to certain laws as amended, and amending Decree No. 8/2008 of Národná banka Slovenska on fees for acts performed by Národná banka Slovenska.

#### **NBS decrees adopted in 2009**

- **Decree No. 5/2009 of Národná banka Slovenska of 24 November 2009** amending Decree No. 18/2008 of Národná banka Slovenska on the liquidity of banks and branches of foreign banks and the process of liquidity risk management of banks and branches of foreign banks, and on the amendment of Decree No. 11/2007 of Národná banka Slovenska concerning the submission of statements, reports and other disclosures by banks, branches of foreign banks, investment firms, and branches of foreign investment firms for supervision and statistical purposes (effective since 1 January 2010)
- **Decree No. 6/2009 of Národná banka Slovenska of 24 November 2009** on the submission of statements, reports and other disclosures by banks, branches of foreign banks, investment firms and branches of foreign investment firms for supervision purposes, and amending Decree No. 26/2008 of Národná banka Slovenska on the submission of statements by banks, branches of foreign banks, investment firms and

branches of foreign investment firms for statistical purposes (effective since 1 January 2010)

### **Methodological guidelines and recommendations adopted in 2009**

- **Methodological Guideline No. 4/2009 of 17 December 2009 issued by the Financial Market Supervision Unit of Národná banka Slovenska** concerning the protection of banks and branches of foreign banks against money laundering and terrorist financing

#### *3.2.1.1 Payment institutions and electronic money institutions*

### **NBS decrees adopted in 2009**

- **Decree No. 2/2009 of Národná banka Slovenska of 7 April 2009** laying down the elements of an application for authorisation to issue electronic money payment instruments as defined in Section 21d of Act No. 510/2002 Coll. on the payment system and on amendments to certain laws as amended, and amending Decree No. 8/2008 of Národná banka Slovenska on fees for acts performed by Národná banka Slovenska (Notification No. 147/2009 Coll.) (effective since 1 May 2009)
- **Decree No. 7/2009 of Národná banka Slovenska of 1 December 2009** laying down certain details of the authorisation of the activities and business conducted by payment institutions and electronic money institutions (effective since 20 December 2009)
- **Decree No. 11/2009 of Národná banka Slovenska of 15 December 2009** on the Register of Financial Agents, Financial Advisors, Financial Intermediaries from other Member States in the Insurance or Reinsurance Sectors and Tied Investment Agents, and on the amendment of NBS Decree No. 8/2008 on fees for acts performed by Národná banka Slovenska (effective since 1 January 2010)

### **Methodological guidelines and recommendations adopted in 2009**

- **Methodological Guideline No. 4/2009 of 17 December 2009 issued by the Financial Market Supervision Unit of Národná banka Slovenska** concerning the performance of payment institution activities under a single European passport.

## **3.2.2 Capital market**

During 2009, Národná banka Slovenska adopted several decrees pertaining to the collective investment sector.

In June 2009, the NBS Bank Board approved **NBS Decree No. 3/2009** concerning the methods of establishing the value of assets in a mutual fund. Issued in response to the lack of relevant regulation in this area, the Decree was intended to provide detailed regulation of the valuation method for securities, money market instruments, derivatives, current accounts and deposit accounts, receivables and liabilities, equity participations and precious metals held by mutual funds. Another reason for the adoption of the Decree was the amendment to Section 116(1) of Act No. 594/2003 Coll. on collective investment and on amendments and supplements and supplements to certain laws as amended (hereinafter "the Collective Investment Act") contained in an Act amending Act No. 566/2001 Coll. on Securities and Investment Services and on amendments and supplements to certain laws as amended. This

amendment to the enabling provision, effective as from 1 January 2009, allowed NBS to issue a decree laying down the method for determining the value of all assets in a mutual fund. At the same time as the adoption of the Decree, efforts were being made to unify valuation rules for assets in mutual funds, pension funds and supplementary pension funds. This Decree repealed Decree No. 611/2003 Coll. of the Ministry of Finance of the Slovak Republic laying down a method for determining the value of securities, money market instruments and derivatives in mutual fund assets.

In July 2009, the NBS Bank Board approved **NBS Decree No. 4/2009** on the elements of an application for prior approval of Národná banka Slovenska under the Collective Investment Act. The Decree regulates the granting of prior approval by NBS for management companies, open-ended funds, closed-ended funds and special funds, and for foreign collective investment undertakings and foreign management companies. The Decree reflects amendments to the Collective Investment Act concerning the granting of prior approval for acquiring or exceeding a qualified participation in a management company or for the keeping of separate records by a depositary or by a management company in respect of a special fund, as well as amendments to certain provisions of the Act aimed at removing its inconsistencies. This Decree repealed Decree No. 288/2008 of Národná banka Slovenska on the elements of an application for prior approval of Národná banka Slovenska under the Collective Investment Act.

In December 2009, the NBS Bank Board approved **NBS Decree No. 9/2009** on the submission of statements by management companies and by depositaries of mutual funds for the purposes of financial market supervision. The Decree was a response both to the current state of general binding legal regulations and to the requirements of NBS specialist departments in regard to the clarification or supplementation of data in existing statements. This Decree repealed Decree No. 17/2007 of Národná banka Slovenska of 18 December 2007 on the submission of statements by management companies and by depositaries of mutual funds for the purposes of financial market supervision, as amended by Decree No. 24/2008 of Národná banka Slovenska of 25 November 2008 amending certain decrees of Národná banka Slovenska in relation to the introduction of the euro in the Slovak Republic.

On 19 May 2009, the Financial Market Supervision Unit of Národná banka Slovenska issued **Methodological Instruction No. 1/2009** on the operation of undertakings in the area of collective investment under the single European passport. This measure replaced Methodological Instruction No. 4/2007 issued by the Financial Market Supervision Unit of Národná banka Slovenska concerning the operation of collective investment undertakings under the single European passport, as amended by Methodological Instruction No. 2/2007 of the NBS Financial Market Supervision Unit. The purpose of the new Methodological Instruction was to apply the amendments made by Act No. 552/2008 to the Collective Investment Act in regard to the notification of European funds, and to apply the provisions of the CESR guideline for the simplification of notification procedures of undertakings for collective investment in transferable securities (UCITS).

#### **NBS decrees adopted in 2009**

- **Decree No. 3/2009 of Národná banka Slovenska of 16 June 2009** concerning the methods of establishing the value of assets in a mutual fund (effective since 1 July 2009)

- **Decree No. 4/2009 of Národná banka Slovenska of 28 July 2009** on the elements of an application for prior approval of Národná banka Slovenska under the Collective Investment Act (effective since 1 October 2009)
- **Decree No. 9/2009 of Národná banka Slovenska of 1 December 2009** on the submission of statements by management companies and by depositaries of mutual funds for the purposes of financial market supervision (effective since 1 January 2010)

#### **Methodological guidelines and recommendations adopted in 2009**

- **Methodological Instruction No. 1/2009 of 19 May 2009 issued by the Financial Market Supervision Unit of Národná banka Slovenska** on the operation of undertakings in the area of collective investment under the single European passport

### **3.2.3 Insurance sector**

In 2009, Národná banka Slovenska issued two decrees concerning the insurance sector.

**NBS Decree No. 1/2009** concerning the activity reports and plans of internal audit units of insurance companies, branches of foreign insurance companies, reinsurance companies, and branches of foreign reinsurance companies specifies the due form and contents of the activity reports of internal audit units of insurance companies, branches of foreign insurance companies, reinsurance companies. Insofar as internal audit is an important and independently-conducted part of the continuous risk mitigation process within a company, it represents an objective guarantee of rising value and improving quality in the company's outputs. The consistent performance of internal audit in the insurance sector therefore brings benefits both to the insurance companies themselves, and to their customers. The obligation to submit the information stipulated in this regulation thus allows Národná banka Slovenska, as the supervisory authority, not only to inspect the performance of internal audit at insurance companies, but also to exercise more effective supervision over insurance companies in accordance with the Insurance Act. Another indirect benefit of this Decree is that it raises the quality of internal audit activities at insurance companies and therefore also improves the quality of services provided by insurance companies.

On the basis of the European Commission's Notice regarding the adaptation in line with inflation of certain amounts laid down in the Life and Non-Life Insurance Directives (2009/C 41/01) and Notice regarding the adaptation in line with inflation of certain amounts laid down in the Reinsurance Directive (2009/C 63/03), NBS issued **Decree No. 12/2009** of Národná banka Slovenska amending Decree No. 25/2008 of Národná banka Slovenska on the solvency and minimum guarantee fund of insurance companies, branches of foreign insurance companies, reinsurance companies and branches of foreign reinsurance companies. The Decree takes account of changes arising from the European Commission's periodic review of amounts used for the calculation of solvency. These amounts are reviewed annually in order to take account of changes in the European index of consumer prices comprising all Member States as published by Eurostat, in accordance with Article 30 of Directive 2002/83/EC concerning life assurance, with Article 17a of Directive 73/239/EEC on the coordination of laws, regulations and administrative provisions relating to the taking-up and pursuit of the business of direct insurance other than life assurance, and with Article 41 of Directive 2005/68/EC on reinsurance. This amount is adapted automatically, by increasing the base

amount in euro by the percentage change in that index, and rounded up to a multiple of €100,000.

### **NBS decrees adopted in 2009**

- **Decree No. 1/2009 of Národná banka Slovenska of 3 March 2009** concerning the activity reports and plans of internal audit units of insurance companies, branches of foreign insurance companies, reinsurance companies, and branches of foreign reinsurance companies (effective since 15 March 2009)
- **Decree No. 12/2009 of Národná banka Slovenska of 22 December** amending Decree No. 25/2008 of Národná banka Slovenska on the solvency and minimum guarantee fund of insurance companies, branches of foreign insurance companies reinsurance companies and branches of foreign reinsurance companies (effective since 31 December 2009)

### **3.2.4 Pension savings sector**

In February 2009, the NBS Bank Board approved two NBS regulations. The first was **Regulation No. 74/2009 Coll. of Národná banka Slovenska** on the submission of reports on the exceeding of limits and compliance with limits concerning the assets of pension funds or supplementary pension funds. The purpose of the Regulation was to ensure that supervised entities submit in a uniform way, through the Status DFT information system of Národná banka Slovenska, reports on whether the asset structure of their pension funds exceed or comply with limits and statutory restrictions and reports on breaches of laws, generally binding legal regulations, and rules of pension funds and supplementary pension funds. The second was **NBS Regulation No. 75/2009 Coll. of Národná banka Slovenska** on the provision of information about the net asset value of supplementary pension funds. The purpose of this Regulation was to obtain and monitor daily information on the net asset value of individual supplementary pension funds established and managed by supplementary pension asset management companies.

In June 2009, the NBS Bank Board approved three NBS regulations. One of them was **Regulation No. 246/2009 Coll. of Národná banka Slovenska** concerning methods for determining the value of assets in pension funds and supplementary pension funds, and amending Regulation of the Ministry of Finance of the Slovak Republic No. 217/2005 Coll. on the own funds of supplementary pension asset management companies and on the methods and procedures to be followed in determining the value of assets in supplementary pension funds as amended. The purpose of this Regulation is to clarify and harmonise the valuation method for assets held in pension funds and supplementary pension funds. The main reason for harmonising these valuation methods is to ensure that valuations of different asset structures can be compared as far as possible and that the valuations are realistic in regard to the value for which individual assets can be obtained in trading on a relevant market. Another of the three approved regulations was **Regulation No. 267/2009 Coll. of Národná banka Slovenska** on the reference values of conservative pension funds and on the composition of reference values of balanced pension funds and growth pension funds. The purpose of this Regulation is to set the minimum return that a conservative pension fund is required to achieve over the period under review. This implementing regulation also lays down rules for the composition of reference values of growth and balanced pension funds and for the intervals at which the composition of assets in growth and balance pension funds is compared

with these reference values. The Decree also stipulated the maximum permitted deviation for the composition of assets in growth and pension funds. The third regulation was **Regulation No. 270/2009 Coll. of Národná banka Slovenska** on the submission of information on the balance of assets in supplementary pension funds. This Regulation ensures that the supplementary pension asset management companies submit information on the supplementary pension funds under their management on a uniform basis, with a detailed structure and scope, at the stipulated dates, and in accordance with the methodology for its provision.

In July 2009, the NBS Bank Board approved **Regulation No. 319/2009 Coll. of Národná banka Slovenska** on the charges payable to issuers of securities by pension fund management companies and their method of payment. With effect from 1 January 2009, Act No. 449/2008 Coll., amending Act No. 43/2004 Coll. on retirement pension and on amendments to certain laws as amended, introduced an obligation on pension fund management companies to pay charges related to the investment of pension fund assets in selected types of securities. The Regulation lays down in detail the procedure for determining and paying these charges.

In December 2009, the NBS Bank Board approved two NBS regulations. One was **Regulation No. 545/2009 Coll. of Národná banka Slovenska** on annual reports and semi-annual reports submitted by pension fund management companies. The purpose of this Regulation was to lay down details regarding those reports that pension fund management companies are required to disclose to their savers, to publish on their websites and to submit to Národná banka Slovenska through the information system APS Status DFT. At the same time, the Regulation stipulated also the form and content of the shortened versions of the reports that pension fund management companies are required to publish in a newspaper with nationwide circulation within a period set by law. The Regulation repealed NBS Regulation No. 567/2006 Coll. laying down the content of reports on the management of a pension fund's assets, reports on the management of the own assets of a pension fund management company, the method and scope of their publication, and the content of daily information on each transaction in a pension fund's assets, as amended by NBS Regulation No. 91/2008 Coll. and NBS Regulation No. 523/2008 Coll. The other regulation approved by the NBS Bank Board was **Regulation No. 546/2009 Coll. of Národná banka Slovenska** on annual reports and semi-annual reports submitted by supplementary pension fund asset management companies. Its purpose was to lay down details regarding those reports that supplementary pension asset management companies are required to disclose to their funds' participants and beneficiaries, to publish on their websites and to submit to Národná banka Slovenska through the information system APS Status DFT. At the same time, the Regulation stipulated also the form and content of the shortened versions of the reports that supplementary pension fund asset management companies are required to publish in a newspaper with nationwide circulation within a period set by law. The Regulation repealed NBS Regulation No. 568/2006 Coll. laying down the content of annual reports and semi-annual reports on the management of a supplementary pension fund's assets and the content of annual reports and semi-annual reports on the management of the own assets of a supplementary pension fund asset management company, as amended by Regulation No. 523/2008 Coll.

In May 2009, the NBS Bank Board approved **Methodological Guideline No. 2/2009 issued by the Financial Market Supervision Unit of Národná banka Slovenska** concerning details about determining the net asset value, number of pension units, current value of a pension unit and fee for the guarantee account of a pension fund and

determining the fee for increasing the value of a pension fund's assets, and regarding the procedure to be followed by a pension fund management company when a pension fund's assets decline in value – in accordance with Sections 63, 63b, 63c, 75, 95 and 96 of Act No. 43/2004 Coll. on retirement pension saving and on amendments to certain laws, as amended by Act No. 137/2009 Coll. The issuance of this Methodological Guideline became necessary following the adoption of Act No. 137/2009 Coll. In order to harmonise the approach of pension fund management companies to determining the net asset value, number of pension units, current value of a pension unit and fee for the guarantee account of a pension fund and to determining the fee for increasing the value of a pension fund's assets, and in order to harmonise the procedure to be followed by a pension fund management company when a pension fund's assets decline, this Methodological Guideline specifies further details about the Act's respective provisions.

### **NBS decrees adopted in 2009**

- **Regulation No. 74/2009 Coll. of Národná banka Slovenska of 24 February 2009** on the submission of reports on the exceeding of limits and compliance with limits concerning the assets of pension funds or supplementary pension funds (effective since 15 March 2009)
- **Regulation No. 75/2009 Coll. of Národná banka Slovenska of 24 February 2009** on the provision of information about the net asset value of supplementary pension funds (effective since 15 March 2009)
- **Regulation No. 246/2009 Coll. of Národná banka Slovenska of 16 June 2009** concerning methods for determining the value of assets in pension funds and supplementary pension funds, and amending Decree of the Ministry of Finance of the Slovak Republic No. 217/2005 Coll. on the own funds of supplementary pension asset management companies and on the methods and procedures to be followed in determining the value of assets in supplementary pension funds as amended (effective since 1 July 2009)
- **Regulation No. 267/2007 Coll. of Národná banka Slovenska of 23 June 2009** on the reference values of conservative pension funds and on the composition of reference values of balanced pension funds and growth pension funds (effective since 1 July 2009)
- **Regulation No. 270/2009 Coll. of Národná banka Slovenska of 16 June 2009** on the submission of information on the balance of assets in supplementary pension funds (effective since 1 August 2009)
- **Regulation No. 319/2009 Coll. of Národná banka Slovenska of 28 July 2009** on the charges payable to issuers of securities by pension fund management companies and their method of payment (effective since 15 August 2009)
- **Regulation No. 545/2009 Coll. of Národná banka Slovenska of 1 December 2009** on annual reports and semi-annual reports submitted by pension fund management companies (effective since 1 January 2010)
- **Regulation No. 546/2009 Coll. of Národná banka Slovenska of 1 December 2009** on annual reports and semi-annual reports submitted by supplementary pension fund asset management companies (effective since 1 January 2010)

### **Methodological guidelines and recommendations adopted in 2009**

- **Methodological Guideline No. 2/2009 issued by the Financial Market Supervision Unit of Národná banka Slovenska** concerning details about determining the net asset value, number of pension units, current value of a pension unit and fee for the guarantee account of a pension fund and determining the fee for increasing the value of a pension fund's assets, and regarding the procedure to be followed by a pension fund management company when a pension fund's assets decline in value – in accordance with Sections 63, 63b, 63c, 75, 95 and 96 of Act No. 43/2004 Coll. on retirement pension saving and on amendments to certain laws, as amended by Act No. 137/2009 Coll.

### **3.2.5 Financial intermediation**

In December 2009, the NBS Bank Board approved **Decree No. 11/2009 of Národná banka Slovenska**, the purpose of which is to stipulate the content of applications for registration, a change in registration, or the cancellation of registration; the application fees for registration, a change in registration or the cancellation of registration; the template certificate; the structure of the registration number, and other particulars of the register. Article II of the Decree amends Decree No. 8/2008 of Národná banka Slovenska on fees for acts performed by Národná banka Slovenska. This amendment cancels the fees charged by NBS for acts performed in respect of supervised entities under existing laws and stipulates the amount of the fees charged by NBS for acts performed in respect of financial agents, tied investment agents and financial agents in accordance with the Act. Article II of the Decree stipulates the amount of NBS fees related to the adoption of Act No. 492/2009 Coll. on payment services and on amendments to certain laws.

In December 2009, the NBS Bank Board approved **Methodological Guideline No. 5/2009 issued by the Financial Market Supervision Unit of Národná banka Slovenska** concerning the transitional provisions of Act No. 186/2009 Coll. and concerning the method of submitting an application for authorisation to provide financial intermediation and financial advisory services. The purpose of this measure was to facilitate the transition of relevant supervised entities to the new regulation by providing a detailed explanation of the provisions of Act No. 186/2009 Coll. on financial intermediation and financial advisory services and on amendments to certain laws. The Methodological Guideline focuses on the two most important groups in relation to the commencement of the respective Act. The first is the group of transitional provisions which set rules on how activities are to be performed during the transitional period of 2010 and on how the respective activities are to be harmonised with the new Act. The second group comprises the detailed methodological guidance along with template submissions and annexes, which serve as instructions for the submission of an application for authorisation to perform activities, or an application to change or cancel such authorisation.

### **NBS decrees adopted in 2009**

- **Decree No. 11/2009 of Národná banka Slovenska of 15 December** on the Register of Financial Agents, Financial Advisors, Financial Intermediaries from other Member States in the Insurance or Reinsurance Sectors and Tied Investment Agents and on the amendment of Decree No. 8/2008 of Národná banka Slovenska on fees for acts performed by Národná banka Slovenska (effective since 1 January 2010)

## Methodological guidelines and recommendations adopted in 2009

- **Methodological Guideline No. 5/2009 issued by the Financial Market Supervision Unit of Národná banka Slovenska of 21 December 2009** concerning the transitional provisions of Act No. 186/2009 Coll. and concerning the method of submitting an application for authorisation to provide financial intermediation and financial advisory services

### **3.3 EU legislation concerning the financial market**

Regarding the regulation of the issuance of electronic money, the application of Directive 2000/46/EC on the taking up, pursuit of and prudential supervision of the business of electronic money institutions was subjected to a review. The review was carried out on the basis of Article 11 of the same Directive, according to which the European Commission had until 27 April 2005 to present a report to the European Parliament and the Council on the application of this Directive. The result of the review was the issuance of a new piece of legislation – Directive No. 2009/110/EC of 16 September 2009 on the taking up, pursuit and prudential supervision of the business of electronic money institutions amending Directives 2005/60/EC and 2006/48/EC and repealing Directive 2000/46/EC. The deadline for transposition of this Directive is 30 April 2011. This Directive substantially changes the concept of the issuance of electronic money in close line with Directive 2007/64/EC of 13 November 2007 on payment services in the internal market amending Directives 97/7/EC, 2002/65/EC, 2005/60/EC and 2006/48/EC and repealing Directive 97/5/EC. It is in this context that Národná banka Slovakia has drafted an amendment to Act No. 492/2009 of 4 November 2009 on payment services and on amendments to certain laws, the purpose of which will be to implement Directive No. 2009/110/EC on the taking up, pursuit and prudential supervision of the business of electronic money institutions.

On 10 November 2009, the European Council approved Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (**the Solvency II Directive**), which was subsequently published in the Official Journal of the European Union. By requiring higher quality risk assessment and more effective capital allocation, this framework Directive is designed to provide greater protection to insurance policyholders and beneficiaries while at the same time supporting market stability. The latest deadline for its transposition is currently 31 October 2012. Based on this Directive, a new Insurance Act and related implementing measures will need to be adopted in Slovakia. Although the Solvency II Directive is conceived as a maximum harmonisation framework, certain parts of insurance sector regulation remain unharmonised and will have to be covered by national legislation. These include, for example, the regulation of insurance companies that do not fall within the scope of the Directive and the position of a responsible actuary. In 2010, the Solvency II Directive is expected to be amended by the forthcoming "**OMNIBUS II**" Directive, which is a response to ongoing reforms in the supervision and regulation of financial markets across the European Union. The amendment is expected to focus mainly on introducing binding technical standards, introducing binding mediation, and establishing the powers of the European Insurance and Occupational Pensions Authority in crisis situations. The amendment is also expected to extend the transposition deadline for the Solvency II Directive, among other changes thereto.

On 17 November 2009, Directive 2009/65/EC of the European Union and of the Council of 13 July 2009 on the coordination of laws, regulation and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS) (recast) –

the so-called **UCITS IV directive** – was published in the Official Journal of the European Union. The Directive entered into force 20 days thereafter. The UCITS IV Directive represents a watershed in the Union's regulation of collective investment. Besides replacing Directive 85/611/EEC as amended, the UCITS IV Directive removes remaining barriers to a single European market in the collective investment sector. The Directive is expected to lead to greater economies of scale and cost savings through its provisions on new regulatory mechanisms, cross-border mergers of funds, the creation of master-feeder structures, and expediting and simplifying notifications of cross-border marketing or management of funds. At the same time, it should increase competition in the EU's collective investment market. Another benefit of the UCITS IV Directive is its introduction of a new form and content of pre-contractual information, aimed at giving the average fund investor a better understanding of the fund's basic parameters. The UCITS IV Directive also brings greater harmonisation, since detailed rules in many areas of regulation will fall under Level 2 of the Lamfalussy Process (implementing regulations of the European Commission) and be supplemented at Level 3 of the Lamfalussy Process (technical standards of the future European Securities and Markets Authority). The CESR played an active part in this process during 2009, particularly through the provision of technical assistance to the European Commission regarding future measures at Level 2 of the Lamfalussy Process. Under the UCITS IV Directive, Member States have until 30 June 2011 to adopt and publish the laws, regulations and administrative provisions necessary to comply with the provisions of this Directive.

Apart from the UCITS IV Directive, another development in EU legislation concerning the collective investment sector is the ongoing adoption process for a Directive of the European Parliament and of the Council on Alternative Investment Fund Managers (**the AIFM Directive**). The European Commission's original proposal for this Directive was submitted in April 2009, since when it has been under discussion at the Council Working Group level. Národná banka Slovenska, in close cooperation with the Slovak Finance Ministry, has been taking an active part in these discussions. The AIFM Directive will in future regulate any persons who manage or sell alternative investment funds in the European Union, i.e. all funds that are not covered by the UCITS Directive. The Directive is due to be adopted in the second half of 2010.

In the area of financial intermediation, the following EU directives and regulation were adopted in 2009:

- Commission Directive 2009/27/EC of 7 April 2009 amending certain Annexes to Directive 2006/49/EC of the European Parliament and of the Council as regards technical provisions concerning risk management
- Commission Directive 2009/83/EC of 27 July 2009 amending certain Annexes to Directive 2006/48/EC of the European Parliament and of the Council as regards technical provisions concerning risk management
- Directive 2009/111/EC of the European Parliament and of the Council of 16 September 2009 amending Directives 2006/48/EC, 2006/49/EC and 2007/64/EC as regards banks affiliated to central institutions, certain own funds items, large exposures, supervisory arrangements and crisis management
- Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (**the Solvency II Directive**)

- Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies

## 4. Licensing activity and enforcement

### 4.1 Licensing activity

Under the provisions of Act No. 747/2004 Coll. on financial market supervision, Národná banka Slovenska conducts proceedings; grants authorisations, licences, approvals and prior approvals; imposes penalties and remedial measures; issues other decisions, opinions, methodological guidelines and recommendations in accordance with this Act and other laws, and supervises the implementation of its decisions, including compliance with the terms and conditions stipulated in these decisions.

Another equally important task is to accept and/or send notifications of the intentions of financial market participants to provide services (e.g. banking activities, investment services, public offerings of securities, insurance activities) in EEA member states, either via a branch office or directly, on the basis of the principle of free provision of cross-border services.

In 2009, the Financial Market Supervision Unit of NBS issued 826 licensing decisions. A breakdown of these decisions by sector is shown in the following table:

	Number of decisions
Banks and investment firms	163
Capital market	357
Insurance sector	155
Pension sector	124
Foreign exchange activities	24
Payment services	3
<b>Total</b>	<b>826</b>

#### 4.1.1 Banks and investment firms

In 2009, the Supervision Unit issued 163 decisions concerning banks and investment firms and received 166 notifications. They are specified in the following table:

Decision / notification	Number
Change in a bank's board of directors, supervisory board, management, proxies	77
Change in a bank's articles of association, home savings programme	22
Change in a bank's registered office address	1
Extension of a banking licence, authorisation for non-banking activities	3
Prior approval granted under Section 28 of the Banking Act	4
Prior approval granted under Section 33 of the Banking Act	3
Special conditions set for mortgage loan financing	8
Prior approval granted to an investment firm to provide investment services	2

Change in an investment firm's authorisation to provide investment services	4
Prior approval granted to an investment firm to appoint a board member	15
Prior approval granted to an investment firm to change its registered office	3
Prior approval granted for the acquisition of an interest in an investment firm	7
Prior approval granted to an investment firm to return its investment service licence	1
Discontinuance of proceedings	5
Suspension of proceedings	7
Cancellation of a registration in the register of tied agents	1
Notification of the terms and conditions of opening a branch in Slovakia on the basis of a single banking licence	2
Notification received from a foreign credit institution intending to provide cross-border banking services in Slovakia	22
Notification received from a foreign investment firm intending to provide cross-border investment services in Slovakia	140
Notification from an investment firm intending to provide cross-border investment services in an EU Member State	2
<b>Decisions in total</b>	<b>163</b>
<b>Notifications in total</b>	<b>166</b>

Among NBS's significant decisions related to banks in 2009 were the following:

- prior approval for the acquisition of a 100% share in the registered capital and voting rights of Slovenská sporiteľňa, a.s., and for the bank's transformation into a subsidiary of EGB Ceps Holding GmbH;
- prior approval for the indirect acquisition of a 100% share in the registered capital and voting rights of Slovenská sporiteľňa, a.s.;
- prior approval granted to Slovenská sporiteľňa, a.s., and UniCredit Bank Slovakia, a.s., for using the Advanced Measurement Approach for the calculation of operational risk capital requirements;
- prior approval for the merger of Československá obchodná banka, a.s., and ISTROBANKA, a.s.;

Národná banka Slovenska issued the following decisions concerning investment firms in 2009:

- authorisation granted to OXYS CAPITAL, o. c. p., a.s., to provide investment services;
- authorisation granted to the European Investment Centre, o. c. p., a.s., to provide investment services;
- prior approval granted to PORTFIN, o.c.p., a.s., to return its licence to provide investment services.

In 2009, the following credit institutions reported having commenced operations via a local branch: Citibank Europe plc, a branch of a foreign bank (from 1 January 2009), and Oberbank AG, a branch of a foreign bank (from 1 April 2009).

In 2009, Národná banka Slovenska registered 22 credit institutions (including electronic money institutions and foreign financial institutions) and 140 investment firms, which announced their intention to provide cross-border banking and investment services in Slovakia.

## 4.1.2 Capital market

### Collective investment

In respect of collective investment, 228 decisions were issued and 24 notifications received in 2009. They are specified in the table below:

Decision / notification	Number
Authorisation to establish an open-ended fund (UCITS)	2
Returned authorisation to establish an open-ended fund (UCITS)	2
Authorisation granted under Section 75(1) of the Collective Investment Act	1
Prior approval for the return of a licence to establish and operate an management company	1
Prior approval for the merger of management companies	1
Prior approval for the acquisition of a capital share/voting rights in an management company	1
Prior approval for the acquisition of a qualifying holding in an management company	3
Prior approval for the appointment of a board member or supervisory board member of a management company	14
Prior approval for a change in an management company's articles of association	4
Prior approval for the transfer of open-ended funds to another management company	6
Prior approval for the transformation of closed-ended funds into open-ended funds	4
Prior approval for the change of depository for an open-ended fund	4
Prior approval for a change in an open-ended fund's statute	122
Prior approval for a change in a closed-ended fund's statute	41
Prior approval for a change in a special fund's statute	5
Prior approval for the merger of open-ended funds	6
Prior approval for the merger of closed-ended funds	4
Prior approval for the acquisition of securities for an open-ended fund from an management company's shareholder	2
Prior approval for separate record-keeping by a depository or management company	1
Approval for a change in a common operating manual	1
Discontinuance of proceedings	3
Notification under Section 27 of the Collective Investment Act of management company activity in a Member State without a local branch established	3
Notification from a foreign management company under Section 29 of the Collective Investment Act	3
Notification from a European fund under Section 61 of the Collective Investment Act	18
<b>Decisions in total</b>	<b>228</b>
<b>Notifications in total</b>	<b>24</b>

Among NBS's significant decisions related to domestic management companies in 2009 were the following:

- prior approval for the transfer of the management of open-ended funds to another management company:

- for the transfer of 4 open-ended funds managed by ISTRO ASSET MANAGEMENT, správ. spol., a.s., to ČSOB Asset Management, správ. spol., a.s.;
- for the transfer of 2 open-ended funds managed by KD Investments, správ. spol., a.s. to IAD Investments, správ. spol., a.s.;
- prior approval granted to ISTRO ASSET MANAGEMENT, správ. spol., a.s., for the return of its authorisation to operate as a management company;
- prior approval for the merger of two management companies, i.e. KD Investments, správ. spol., a.s., and IAD Investments, správ. spol., a. s.;
- prior approval for the merger of 41 closed-ended funds managed by PRVÁ PENZIJNÁ SPRÁVCOVSKÁ SPOLOČNOSŤ POŠTOVEJ BANKY, správ. spol., a. s., a management company. The funds merged into 4 closed-ended funds, which were subsequently transformed into 4 open-ended funds on the basis of a prior approval for the transformation of closed-ended funds into open-ended funds;
- prior approval for the acquisition of a qualifying holding in:
  - AIG Funds Central Europe správ. spol., a.s., a management company, by AIG Credit Facility Trust;
  - Alico Funds Central Europe správ. spol., a.s., a management company, by ALICO Holdings LLC;
  - Allianz Asset Management, správ. spol., a.s., a management company, by Allianz Holding eins GmbH.
- prior approval granted to Erste Asset Management GmbH for the acquisition of a 100% share in the registered capital and voting rights of Asset Management Slovenskej sporiteľne, správ. spol., a.s., and for its transformation into a subsidiary company.

### The Bratislava Stock Exchange

Within the scope of its licensing activity concerning the Bratislava Stock Exchange (hereinafter referred to as ‘the BSSE’), NBS issued the following decisions in 2009:

Decision / notification	Number
Approval of changes in the stock exchange rules of the BSSE	1
<b>Decisions in total</b>	<b>1</b>

The stock exchange rules of the BSSE were modified in 2009. The most important change was that issuers whose shares were excluded from trading in the regulated market due to non-compliance with the reporting requirement were put under an obligation to announce a compulsory takeover bid in this regard.

### Centrálny depozitár cenných papierov SR, a.s. (CDCP)

Within the scope of its licensing activity, NBS issued 5 decisions in 2009 concerning the activities of CDCP, the Slovak central securities depository:

Decision / notification	Number
Change in a licence to operate as a central securities depository (CDCP)	1
Approval for changes in the CDCP Rules of Operation	4
<b>Decisions in total</b>	<b>5</b>

In August 2009, NBS decided to modify CDCP's operating licence. On the basis of this modification, CDCP is entitled to open an account with a foreign legal entity with a similar scope of activities, with a foreign bank or investment firm, and to provide related services and to manage financial instruments for the accounts of clients in relation to foreign transferable securities. At the same time, 4 decisions were issued to approve changes in the CDCP Rules of Operation.

### Public offering of securities

During 2009, 42 securities prospectuses were approved in accordance with Section 125(2) of Act No. 566/2001 Coll. on securities and investment services:

Decision / notification	Number
Securities prospectuses – shares	9
Securities prospectuses – bonds	9
Securities prospectus – mortgage bonds	24
<b>Decisions in total</b>	<b>42</b>

In 2009, one amendment was approved in regard to a securities prospectus under Section 125c(2) of Act No. 566/2001 Coll. on securities and investment services.

Securities prospectuses for shares were approved for 3 issuers, for a total nominal value of EUR 584,022,091. Securities prospectuses for bonds were approved for 6 issuers, for a total nominal value of EUR 60,300,000. Securities prospectuses for mortgage bonds were approved for 6 banks, for a total nominal value of EUR 344,439,687.

Sixteen prospectuses were approved for securities offered for trading on a regulated market and twenty-five for the public offering and subsequent trading of securities on a regulated market. One securities prospectus was approved exclusively for public offering.

### Public offering of assets

During 2009, no investment prospectus was approved under Section 127(2-4) of Act No. 566/2001 Coll. on securities and investment services, nor was a supplement to an investment prospectus.

### Notification of securities prospectuses

During 2009, NBS received a total of 74 notifications as specified below:

Notification	Number
Notification from the supervisory authority of a Member State of an approved securities prospectus or basic prospectus	17
Notification from the supervisory authority of a Member State of an approved amendment to a securities prospectus or basic prospectus	57

### Takeover bids and squeeze-outs

Within the scope of its licensing activity, NBS issued 8 decisions in 2009 in takeover bid proceedings concerning the activities of issuers of shares traded on the BSSE regulated market. In 2009, no approval was granted for the exercise of a squeeze-out right.

Decision / notification	Number
Approval of a compulsory takeover bid for the shares of a target company	5
Refusal of a compulsory takeover bid for the shares of a target company	1
Obligation to complete and correct data in a takeover bid proposal (procedural decision)	2
<b>Decisions in total</b>	<b>8</b>

While 10 proposals for compulsory takeover bids were approved in 2008, only 8 such proposals were approved in 2009. Four of them were approved because the issuer decided to discontinue trading in its own shares on the regulated stock exchange market.

During 2009, NBS assessed 6 takeover bid proposals and issued 8 decisions in this connection; two of them were process decisions on a correction or change in a takeover bid proposal. Five proposals for compulsory takeover bids were approved and one was rejected. For the purpose of squeeze-out under Section 118i of Act No. 566/2001 Coll., which is subject to approval by NBS, Národná banka Slovenska approved no takeover bid announced on a voluntary basis and granted no approval for squeeze-out under Section 118i of Act No. 566/2001 Coll. on securities and investment services.

In 2009, NBS received notifications from 3 companies whose general meetings had decided to withdraw their shares from trading on the BSSE regulated market. NBS verified these notifications in terms of whether a compulsory takeover bid was to be announced or not. These companies were not obliged to announce a compulsory takeover bid, because their general meetings were attended by all shareholders of the individual issuers and they all (100%) voted for the said decisions.

### Investment services intermediaries

In 2009, NBS issued 15 decisions granting natural persons an authorisation to operate as an investment services intermediary and 15 decisions granting legal entities the same. All decisions became effective in the same year. In addition, NBS issued 43 prior approvals for the return of authorisation by investment service intermediaries. Subsequently, 40 authorisations were returned by natural persons and 3 by legal entities. In all cases, the entities concerned justified the return of their authorisation by the fact that they were no longer involved in the business of investment services intermediaries. Three authorisations granted to natural persons expired pursuant to Section 61(13) and Section 60(1) of Act No. 566/2001 Coll. on securities and investment services.

Decision / notification	Number
Authorisation for a natural person to operate as an investment services intermediary	15
Authorisation for a legal entity to operate as investment services intermediary	15
Prior approval for the return of an authorisation for a natural person to operate as an investment	40

services intermediary	
Prior approval for the return of an authorisation for a legal entity to operate as an investment services intermediary	3
<b>Decisions in total</b>	<b>73</b>

### 4.1.3 Insurance sector

In 2009, NBS issued 155 various decisions for, and received 699 notifications from, the insurance sector. They are specified in the table below:

Decision	Number
Prior approval for the appointment of a board member or proxy of an insurance company	23
Prior approval for the conduct of intermediary activities for financial institutions	2
Prior approval for the acquisition of a share in registered capital/voting rights	4
Prior approval for the merger of an insurance company with another insurer	1
Prior approval for the sale of an insurance company	2
Extension of a licence to pursue insurance activities	3
Authorisation to mediate insurance services as an insurance agent – natural person	12
Authorisation to mediate insurance services as an insurance agent – legal entity	95
Authorisation to mediate insurance services as an insurance broker – legal entity	2
Authorisation to mediate reinsurance services	2
Registration of a responsible actuary	4
Discontinuance of proceedings	5
<b>Decisions in total</b>	<b>155</b>

Notification	Number
Notification from an insurer based in another Member State of its intention to provide insurance services via a branch office in Slovakia	1
Notification from an insurer based in another Member State of its intention to provide insurance services without opening a branch in Slovakia	27
Notification from an insurance intermediary based in Slovakia of its intention to provide intermediary services in another EU Member State	40
Notification from an insurance intermediary based in another EU Member State of its intention to provide intermediary services in Slovakia via a branch office	9
Notification from an insurance intermediary based in another EU Member State of its intention to provide cross-border intermediary services in Slovakia	622
<b>Notifications in total</b>	<b>699</b>

In 2009, NBS issued the following decisions in respect of the insurance sector:

- prior approval for the merger of KOMUNÁLNA poisťovňa, a.s., Vienna Insurance Group, and KONTINUITA poisťovňa, a.s., Vienna Insurance Group, insurance companies. Following the merger, KOMUNÁLNA poisťovňa, a.s., Vienna Insurance Group, became the legal successor of KONTINUITA poisťovňa, a.s., Vienna Insurance Group;
- the licence of VICTORIA-VOLKSBANKEN Poist'ovňa, a.s., to pursue insurance activities was, at the company's request, extended to include the B16(h) non-life insurance line (i.e. insurance for various financial losses resulting from the loss of

regular income) and modified according to the Classification of Insurance Lines by Insurance Type (see Annex 1, Insurance Act);

- prior approval granted to KOOOPERATIVA poisťovňa, a.s., Vienna Insurance Group, for the conduct of intermediary activities for Slovenská sporiteľňa, a.s. (SLSP, a.s.), a financial institution;
- the authorisation of Union poisťovňa, a.s., to pursue insurance activities was, at the company's request, extended to include the B10(a) non-life insurance line (i.e. third-party liability motor vehicle insurance) and modified according to the Classification of Insurance Lines by Insurance Type (see Annex 1, Insurance Act);
- the licence of KOMUNÁLNA poisťovňa, a.s., Vienna Insurance Group, to pursue insurance activities was, at the company's request, extended to include the B2 non-life insurance line (i.e. health insurance) and modified according to the Classification of Insurance Lines by Insurance Type (see Annex 1, Insurance Act);
- prior approval for the sale of part of Wüstenrot poisťovňa, a.s., namely Wüstenrot pojišťovna, branch for the Czech Republic, to Wüstenrot pojišťovna, a.s., Czech Republic;
- prior approval for the sale of Q B E poisťovňa, a.s., an insurance company, including its branch in the Czech Republic, to QBE Insurance (Europe) Limited, United Kingdom of Great Britain and Northern Ireland;
- prior approval granted to ERGO Austria International AG for the acquisition of a more than 50% share in the registered capital of VICTORIA - VOLKSBANKEN Poist'ovňa, a.s., an insurance company;
- prior approval granted to AIG Credit Facility Trust, USA, for the acquisition of a qualifying holding in AMSLICO AIG Life poisťovňa, a.s., a life insurance company;
- prior approval granted to ALICO Holdings LLC, USA, for the acquisition of a qualifying holding in AMSLICO AIG Life poisťovňa, a.s., a life insurance company;
- prior approval granted to Allianz Holding eins GmbH, Austria, for the acquisition of a qualifying holding in Allianz - Slovenská poisťovňa, a.s., a life insurance company.

#### 4.1.4 Pension savings sector

##### Retirement pension savings

Within the scope of its licensing activity in 2009, NBS issued 77 prior approvals under Act No. 43/2004 Coll., as specified bellow:

Decision	Number
Prior approval for the appointment of a board member, supervisory board member, manager in charge of professional activities, and the head of the internal control unit	21
Prior approval for a change in the articles of association	5
Prior approval for a change in the statutes of a pension fund	48
Discontinuance of proceedings	3
<b>Decisions in total</b>	<b>77</b>

The decisions issued in respect of the pension sector during 2009 were mainly influenced by Act No. 137/2009 Coll., which introduced the comparison of a conservative pension fund's output with the reference value of conservative pension funds, the comparison of the composition of assets in a balanced pension fund with the reference value of balanced pension funds, and the comparison of the composition of assets in a growth fund with the reference value of growth pension funds. For that reason, the decisions issued in 2009 were dominated by prior approvals granted for changes in the statutes of retirement pension funds.

### Supplementary pension savings

During 2009, NBS issued 47 prior approvals under Act No. 650/2004 Coll. on supplementary pension savings, as specified below:

Decision	Number
Prior approval for the acquisition of a share in registered capital and voting rights	1
Prior approval for a reduction in the registered capital of a supplementary pension asset management company	1
Prior approval for the assignment of activities to another natural or legal person under Section 37	2
Prior approval for the establishment of a new supplementary pension fund	1
Prior approval for the appointment of a board member, supervisory board member, and manager in charge of the internal control unit	11
Prior approval for a change in the articles of association	4
Prior approval for a change in the statutes of a supplementary pension fund	23
Prior approval for a change in the benefit pension plan	4
<b>Decisions in total</b>	<b>47</b>

In 2009, NBS issued the following decisions regarding the supplementary pension savings sector:

- prior approval granted to AXA, d.d.s., a.s., a supplementary pension asset management company, for a change in its benefit pension plan;
- prior approval granted to Doplnková dôchodková spoločnosť Tatra banky, a.s., for the establishment of a new supplementary pension fund called Doplnková dôchodková spoločnosť Tatra banky, a.s., Konzervatívny príspevkový d. d. f., a conservative supplementary pension fund;
- prior approval granted to ING Continental Europe Holdings B.V., with a statutory body based in Gravenhage, the Netherlands, for increasing its share in the registered capital of ING Tatra – Sympatia, d.d.s., a.s., a supplementary pension asset management company, to 66% in a single direct operation.

Within its licensing activity in 2009, Národná banka Slovenska authorised 4 legal entities to mediate supplementary pension savings services.

#### 4.1.5 Foreign exchange activities

As an authority competent to conduct first-instance proceedings under the provisions of Section 29(1) of Act No. 747/2004 Coll. on financial market supervision and on amendments to certain laws as amended and Section 40 of Act No. 202/1995 Coll. of the National Council of the Slovak Republic, Foreign Exchange Act and Act amending the

provisions of Act No. 372/1990 Coll. on infringements as amended, the Financial Market Supervision Unit of Národná banka Slovenska had as at 1 December 2009 issued foreign exchange licences for trade in foreign exchange assets in the following range:

- a) currency exchange activities;
- b) non-cash transactions in funds in foreign currency; and
- c) foreign exchange services.

### **Currency exchange activities**

Under the valid legislation, a foreign exchange licence for currency exchange activities may be issued for the purchase of foreign currency for euros in cash or for the sale of foreign currency for euros in cash, while a condition for the issue of a foreign exchange licence for the sale of currency is, among other things, the conduct of foreign currency purchasing activity for at least 12 months in accordance with the generally binding legal regulations and the terms laid down in foreign exchange licences for the purchase of foreign currency for euros in cash.

In 2009, Národná banka Slovenska issued 24 foreign exchange licences for currency exchange activities, as specified in the table below:

Decision	Number
Foreign exchange licence for the purchase of foreign currency for Slovak currency in cash for a legal person	11
Foreign exchange licence for the purchase of foreign currency for Slovak currency in cash for a natural person	5
Foreign exchange licence for the sale of foreign currency for Slovak currency in cash for a legal person	4
Foreign exchange licence for the sale of foreign currency for Slovak currency in cash for a natural person	4
<b>Decisions in total</b>	<b>24</b>

### **Non-cash transactions in funds**

Non-cash transactions in funds are defined as transactions in foreign exchange assets, consisting of the purchase or sale of funds in one currency for funds in other currency for own account or for another person's account via money transfer in non-cash form, or the mediation or arrangement of such purchase or sale, including the receipt and delivery of instructions for its execution or arrangement.

As for foreign exchange licences for non-cash transactions in funds – authorising the licence holder to conduct non-cash transactions in foreign currencies, specifically to buy or sell foreign currencies for his own account or for another person's account via money transfer – none were issued in 2009.

### **Foreign exchange services**

Foreign exchange services are defined as services provided to third parties as part of a business activity, the subject of which is the execution or mediation of cross-border transfers of cash payments in euro or foreign currency, or the operation of commercial agencies for the execution or mediation of such cross-border transfers.

In 2009, Národná banka Slovenska did not grant any licences for foreign exchange services, which authorise the licence holder to mediate cross-border transfers of cash payments from Slovakia abroad, and cash payments from abroad to Slovakia.

Act No. 492/2009 Coll. on payment services and on amendments to certain laws became effective on 1 December 2009. This law provides a legal framework for non-cash transactions in foreign currencies and for foreign exchange services, which had previously been governed by the Foreign Exchange Act.

#### **4.1.6 Payment services**

The supervision of payment services is within the competence of NBS under Act No. 492/2009 Coll. on payment services and on amendments to certain laws (hereinafter referred to as ‘the Payment Services Act’). The Payment Services Act repealed Act No. 510/2002 Coll. on the payment system and on amendments to certain laws as amended (hereinafter referred to as ‘the Payment System Act’).

In 2009, NBS granted authorisation to:

- Orange Slovensko, a.s., pursuant to Section 21(d) of the Payments System Act; on the basis of this authorisation, the company is entitled to issue payment instruments such as electronic money;
- Trust Pay, a.s., pursuant to Section 64(1) of the Payment Services Act; on the basis of this authorisation, the company is entitled to provide payment services under the provisions of Section 2(1)(c) and (g) of the Payment Services Act. The company also provides payment services in the territory of the European Union, on a cross-border basis;
- Telefónica O2 Slovakia, s.r.o., pursuant to Section 81(b) of the Payment Services Act; on the basis of this authorisation, the company is entitled to issue and administer electronic money in a limited range, pursuant to Section 87 of the Payment Services Act.

At the end of 2009, Národná banka Slovenska registered 19 foreign payment institutions (based in EU Member States) providing payment services in the territory of the Slovak Republic on a cross-border basis.

## **4.2 Sanction proceedings and remedial measures**

Under Act No. 747/2004 Coll. on financial market supervision, Národná banka Slovenska conducts proceedings and decides in matters concerning the rights or duties of entities that are subject to supervision or other persons. The competent authority in first-instance proceedings is the Financial Market Supervision Unit of Národná banka Slovenska, specifically the Enforcement Section.

In 2009, 45 first-instance proceedings were conducted, of which 33 had not been completed by the end of December. During the year, 28 first-instance decisions were issued in regard to penalties, remedial measures or the discontinuance of proceedings, of which 14 proceedings were completed in the first instance (on the basis of the FMS Units’s final

decisions taken in 2009), 7 proceedings were completed in the second instance (on the basis of the NBS Bank Board's final decisions taken in 2009), and 1 proceeding was discontinued.

#### **4.2.1 Proceedings started in 2009**

A breakdown of proceedings by sector is shown in the following table:

	<b>Number of proceedings</b>
Banks and investment firms	4
Capital market	7
Insurance sector	15
Pension sector	1
Foreign exchange sector	6
<b>Total</b>	<b>33</b>

#### **4.2.2 Decisions issued in 2009**

##### *4.2.2.1 Banks and investment firms*

Two decisions were issued in 2009 in respect of the banking sector. One of them was a decision to discontinue the proceedings, the second was a decision to impose a penalty.

##### *4.2.2.2 Capital market*

Regarding the capital market, 4 decisions were issued in 2009, including decisions to impose a penalty and decisions to impose remedial measures.

##### *4.2.2.3 Insurance sector*

In 2009, NBS issued 18 decisions concerning the insurance sector, including 6 final decisions to impose a penalty and 1 decision to discontinue the proceedings.

##### *4.2.2.4 Pension savings sector*

In regard to the pension savings sector, no decision to impose a penalty or remedial measures was issued in 2009.

##### *4.2.2.5 Foreign exchange activities*

In 2009, Národná banka Slovenska issued 3 final decisions to impose a penalty in connection with foreign exchange activities.

#### **4.2.3 Second-instance decisions of the NBS Bank Board**

In 2009, 13 appeals were lodged against first-instance NBS decisions. They were forwarded to the Bank Board for reconsideration. In the same year, 8 appeals lodged against first-instance decisions were settled by the NBS Bank Board. All these decisions concerned the activities of insurance sector entities.

#### 4.2.4 Other activities

The Enforcement Section conducted 45 proceedings and ensured the preparation and issuance of implementing regulations. In 2009, the Enforcement Section participated in the preparation of 27 implementing regulations, of which 21 regulations were promulgated in the Collection of Laws of the Slovak Republic or the NBS Gazette and 8 regulations were shifted to 2010 within the legislation process.

### 4.3 Customer protection

In 2009, the Customer Protection Section received 933 petitions from customers (both natural and legal persons) who were dissatisfied with the practices of certain financial service providers. This represented an increase of more than 7% in the number of complaints compared with 2008. The Section managed to settle 872 petitions, representing a 93.46% success factor in processing petitions.

Of the total number of petitions (933), 278 concerned the banking sector, 463 the insurance sector, and 192 related to other segments of the financial market (e.g. investment firms, pension fund management companies, supplementary pension asset management companies, securities depositories, intermediaries, applications for information, etc.).

The tasks of customer protection include the verification and processing of various types of petitions, suggestions and notifications received from natural and legal persons in connection with the activities of financial market participants under supervision (including petitions filed by financial market participants), as well as activities related to the preparation of generally binding legal regulations for the transposition of EU guidelines on customer/consumer protection designed to protect the customers of such financial market participants. Part of the agenda since the end of 2009 is the settlement of petitions under the Payment Services Act.

The Customer Protection Section, which is part of the Financial Market Supervision Unit (responsible for customer protection under the NBS Act and the Supervision Act), deals with petitions filed by the customers of insurance companies and other financial institutions supervised by Národná banka Slovenska in accordance with generally binding legal regulations and NBS's Organisational Rules.

In handling customer petitions, Národná banka Slovenska proceeds in accordance with Act No. 747/2004 Coll. on financial market supervision (Section 2(1)), Act No. 483/2001 Coll. on banks (Section 6), and Act No. 8/2008 on insurance (Section 48(1), (2), (9) and (10)).

Under Section 2(7) of the Supervision Act, entities subject to supervision are obliged to submit to Národná banka Slovenska, within the time limit set by NBS, any data, documents, information, and explanations required by Národná banka Slovenska in connection with the performance of its tasks.

Under Section 37(1) of the Insurance Act, insurance companies are required, among other things, to pursue their activities:

- with professional care in the interest of customers;
- to provide customers, in a clear and intelligible manner, with any information needed for the conclusion of an insurance contract and to draw their attention to the important facts and risks associated with the conclusion of an insurance contract;

- to use no untrue or misleading information while promoting their services, to conceal no important facts, and to offer no advantages that cannot be guaranteed.

Under Section 37(2) of the Insurance Act, insurance companies are obliged, when requested by customers or by NBS, to prove in a trustworthy manner that they exercise due professional care.

Under Section 27 of the Banking Act, banks and branches of foreign banks are obliged to proceed with prudence when pursuing their activities and, among other things, to carry out transactions:

- in a manner that does not damage the interests of depositors in regard to the recoverability of their deposits;
- under financial and legal conditions favourable to the bank or branch of a foreign bank and to its customers when transactions are concluded for the customer's account, while exercising due professional care.

Among other things, 'exercising professional care' means that the entity under supervision records how its activities are performed in the interests of customers.

Under the aforementioned provisions of the Supervision Act, Banking Act and Insurance Act, the Customer Protection Section requires, when handling customer petitions, opinions and other information, the presentation of proofs that the entity concerned pursues its activities with professional care in the interests of customers.

In many cases, the Customer Protection Section arranges 'agreed remedies' for dissatisfied clients of insurance companies, banks and other financial market participants that are subject to supervision (e.g. arranges that an insurance company modifies its decision to pay no insurance benefit), and thus they do not have to file a lawsuit to claim damages. Standard financial market participants cooperate with Národná banka Slovenska, supply NBS with information on customer petitions, respect the opinions of NBS, and are willing to make compromises or to reconsider their decisions.

In handling customer petitions, the Customer Protection Section cooperates with the Supervisory Department and the Regulation and Risk Management Methodology Department. If necessary, the Section requests opinions from these departments and supplies them with information obtained from customer petitions.

In general, petitions received from the clients of banks, insurance companies or other supervised entities represent a source of information about the activities of these entities. The information obtained is taken into account by the Supervisory Department when conducting on-site supervisions.

## **5. Supervision activities**

When exercising supervision, Národná banka Slovenska ascertains important facts about the entities under supervision and their activities, especially shortcomings, their causes and consequences, and the persons responsible for these shortcomings.

Supervision is exercised either on an individual basis over individual entities, on a consolidated basis over groups of entities and special-purpose asset pools (including the entities under supervision), or as supplementary supervision of financial conglomerates.

'On-site supervision' is defined as the acquisition of information directly at the premises of the supervised entity or from its employees, including the evaluation of the information so acquired. 'Off-site supervision' is defined as the acquisition and evaluation of information about a supervised entity other than by means of an on-site supervision, for example at the written request of Národná banka Slovenska made by NBS or from reports, statements, and other documents submitted to NBS

On-site supervisions are divided into three basic types:

- comprehensive supervision – includes an evaluation of all main activities, followed by an assessment of the overall risk profile of the supervised entity
- thematic supervision – focuses on selected activities or on selected risks; a thematic supervision is also used in the process of approving banks' internal models for the calculation of capital requirements
- follow-up supervision – is designed to evaluate the implementation of measures adopted by the supervised entity on the basis of a comprehensive or thematic supervision; a follow-up supervision may also be combined with a thematic or comprehensive supervision.

In 2009, a total of 65 on-site supervisions were carried out at supervised financial market participants, broken down as follows:

On-site supervision	Comprehensive	Thematic	Follow-up	Total
Banks	0	11	2	13
Non-bank investment firms	6	0	0	6
Management companies	2	0	2	4
Pension fund management companies and supplementary pension asset management companies	5	1	1	7
Insurance companies	5	1	3	8*
Intermediaries of insurance, reinsurance and investment service	18	1	0	19
Entities subject to foreign exchange supervision	8	0	0	8
<b>Supervisions in total</b>	<b>44</b>	<b>14</b>	<b>8</b>	<b>65*</b>

\* One on-site supervision combined comprehensive and follow-up supervisions.

## 5.1 Banks and investment firms

### On-site supervision

On-site supervisions at banks were conducted according to the annual plan of supervision, which set outs the schedule and principal focus of supervisions. The aims and findings of supervisions carried out at individual banks in 2009 were as follows:

- **UniCredit Bank Slovakia, a.s.** – at the request of UniCredit Group, a thematic supervision was conducted at the bank in order to evaluate its Advanced Measurement Approach (AMA) for the calculation of operational risk capital requirements. The bank was granted authorisation to use the AMA following a joint decision of the supervisors of UniCredit Group taken on 26 August 2009.
- **Slovenská sporiteľňa, a.s.** – a thematic supervision was conducted at the bank and focused on the following areas: the market risk management system; the liquidity risk management system; accounting and reporting; and the implementation of measures to remove and rectify shortcomings identified in a 2007 on-site supervision.
- **ČSOB stavebná sporiteľňa, a.s.** – a thematic supervision was focused on the credit risk management system and included a review of a sample of loans.
- **UniCredit Bank Slovakia, a.s.** – a follow-up supervision was carried out with the aim of evaluating the implementation of measures to remove and prevent a recurrence of shortcomings identified in a 2008 supervision in the following areas: the market risk management system; the liquidity risk management system; and the prevention of money laundering.
- **Československá obchodná banka, a.s.** – a thematic supervision focused on the bank's operational risk management system, internal control system, and system for preparing selected reports and statements for NBS.
- **OTP Banka Slovensko, a.s.** – a thematic supervision focused on the credit risk management system and included a review of a sample of loans.
- **Tatra banka, a.s.** – in July and August 2009, NBS reviewed the bank's compliance with conditions laid down in the decision to give prior approval for the use of the internal ratings-based approach in a non-retail group. The evaluation of particular conditions was made on the basis of materials, data and information, submitted by the bank, concerning its compliance with the requirements. Most of the measures taken by the bank and implemented in its processes were judged by the supervisor to be compliant and effective in removing the identified shortcomings.
- **Tatra banka, a.s.** – on 30 June 2009, RZB Group, in accordance with its implementation plan, submitted a group application to use the IRB approach for credit risk in respect of retail exposures; as of the same date, proceedings on this matter were opened before NBS. As part of the proceedings a verification procedure and on-site supervision were carried out within the scope required for the issuance of prior approval for the respective use of the IRB approach. These verifications concerned the following areas that were significant to the use of the model at the local level and its application under local conditions: organisation and processes; illustration of the exposure; the credit rating system; PD, LGD and CCF estimates; collateral; stress testing; default ratio; IT; and the capital requirement calculation. The result was an NBS Verification Report on the use of the IRB approach for credit risk in respect of retail exposures, together with 35 conditions produced as the basis for approval of the model.
- **VÚB banka, a.s.** – on 27 July 2009 Intesa Sanpaolo Group (ISP Group) submitted a group application for prior approval to use the Advanced Measurement Approach for operational risk on a group basis in respect of VUB Group; as of the same date, proceedings on this matter were opened before NBS. The verification procedure

concerned areas that were significant to the use of the model at the local level and its application under local conditions. The granting of prior approval to use the AMA model for the calculation of operational risk capital requirements is contingent on the satisfaction of conditions laid down by NBS. The bank is required to meet all the stipulated conditions by 31 December 2010, and it will begin using the AMA approach for operational risk as from 1 January 2010.

- **Volksbank Slovensko, a.s.** – a thematic supervision was conducted at the bank between 6 April and 30 April 2009; it focused on the following areas: the liquidity risk management system; the operational risk management system; the system for protection against money laundering and terrorist financing; the bank information system; and selected prudential reports and statements.
- **Volksbank Slovensko, a.s.** – a thematic supervision was conducted at the bank between 8 September and 30 September 2009 in order to review the internal capital adequacy assessment process. The supervision took place as part of an on-site supervision carried out throughout VB Group.
- **Dexia banka Slovensko, a.s.** – a thematic supervision was carried out at the bank between 3 March and 31 May 2009; it focused on the credit risk management system, the liquidity management system, and selected prudential statistical reports and statements.
- **Poštová banka** – a special thematic supervision was carried out and included a supervision and review of a sample of 30 loans from the bank's credit portfolio. On the basis of the complete credit documentation requested for each loan, the bank's lending procedures were reviewed.
- **Poštová banka** – based on submitted materials and available information, selected financial products of the bank were evaluated through off-site supervision. The process focused on the bank's compliance with NBS Decree No. 12/2004 on risks and the risk management system, in regard to the following products: Personal Loans, Housing Loans, and Smart Reserves.

#### **On-site supervision of investment firms**

- **Fio o.c.p., a.s.** – a comprehensive supervision focused on the company's activities as an investment firm and its compliance with Act No. 566/2001 Coll. on securities and investment services and with other generally binding legal regulations governing investment firm activities.
- **Across Wealth Management, o.c.p., a.s.** – a comprehensive supervision was conducted at the company in line with the supervision plan; it focused on the following areas: the company's compliance with the Securities Act in regard to the provision of investment services, with other laws and generally binding legal regulations, with conditions laid down in its authorisation to provide investment services, and with internal regulations; the material accuracy of selected statistical reports and statements; and the functioning of the internal control system and the anti-money laundering system.
- **Slávia Capital, o.c.p., a.s.** – a comprehensive supervision was conducted at the company in line with the supervision plan; it focused on the company's investment firm activities and on its compliance with conditions laid down in its authorisation to

provide investment services, with the Securities Act and with other laws and generally binding legal regulations.

- **Capital Markets, o.c.p., a.s.** – an supervision was conducted at the company and focused on the following areas: investment firm activities performed under the Securities Act; the scope of activities; organisation and governance; the trading system; compliance with the conditions laid down in the company's authorisation to provide investment services; the level of professional care in the provision of investment services; the management of business documentation; the trading system; reporting and the material accuracy of submitted accounting reports and statements; the internal control system; internal regulations governing the company's activities; information system security; the data protection and backup system, and the anti-money laundering system.
- **Palčo Brokers, o.c.p. a.s.** – a comprehensive supervision was conducted at the company in line with the supervision plan; it focused on the following areas: the company's compliance with the Securities Act, with other laws and generally binding legal regulations, with conditions laid down in its authorisation to provide investment services, with internal regulations, and with the reporting requirement of an investment firm; and the functioning of the internal control system and the anti-money laundering system.
- **Fimex Capital o.c.p., a.s.** – a comprehensive supervision was conducted at the company in line with the supervision plan; it focused on the following areas: the company's compliance with the Securities Act in regard to the provision of investment services, with other laws and generally binding legal regulations, with conditions laid down in its authorisation to provide investment services, and with internal regulations; the material accuracy of selected statistical reports and statements; and the functioning of the internal control system and the anti-money laundering system.

### **Off-site supervision**

The purpose of off-site supervision is to monitor and evaluate the financial position and risk profile of supervised entities on the basis of periodically submitted information, information acquired from on-site supervisions, and publicly available information. Off-site supervision in 2009 included standard processing of monthly and quarterly reports and statements of 26 banking entities (12 banks, 3 home savings banks, 10 branches of foreign banks and 1 savings cooperative), from which the following data outputs were prepared automatically in the statement collecting and processing system (APS STATUS): FINAN (a file of financial indicators used to define outputs for the bank's evaluation), KONCENTRÁCIA (concentration of deposits and loans by sector) and DEPOSITS AND LOANS (a breakdown of deposits and loans by type, maturity, economic sector, and geographical area). During 2009, FINAN underwent a number of changes related to the euro changeover and it was also extended to include new indicators (e.g. the liquid asset ratio).

The verification of reports on the application of prudential business rules did not reveal any significant shortcomings. Errors were usually caused by human failure (e.g. during the manual entering of data into the system) or information system failure; the deadlines for the delivery of statements were missed sporadically.

In 2009, checks on prudential limits for banking business revealed breaches of:

- the 20% limit for large exposures to entities with which the bank has a special relationship;
- the 25% limit for large exposures to other entities and a group of connected entities;
- the limit for the liquid asset ratio (ratio of liquid assets to volatile liabilities; the minimum limit is set at 1);
- the limit for the ratio of permanent and illiquid assets to the bank's own funds (the limit is less than 1).

Off-site supervision is involved in the process of rating banks' risks and risk management systems. In this regard, it is responsible for the quantitative element of the rating, determined according to financial indicators and an analyst's opinion.

For the needs of the Supervisory Department and management, off-site supervision includes the analysis of individual banks on the basis of statements received from banks and other data outputs. Such analyses are normally performed on a quarterly basis, or if necessary, in other months as well. They cover developments in banks' assets and liabilities, interbank transactions, credit portfolios, financial instruments portfolios, customer deposits, and foreign-exchange positions. A separate part of each analysis is devoted to the bank's financial results, liquidity, prudential business indicators, and the effect of stress scenarios. The analysis is used by the supervisor to evaluate the bank's internal capital adequacy assessment process, both in direct communication with the bank and, in the case of banks that are subsidiaries of foreign banks, in follow-up communication with the home supervisor at meetings of supervisors. In addition, a summary of significant changes in each bank's financial indicators and their compliance with prudential business rules is produced on a monthly basis.

On 15 November 2008, an NBS Decree amending NBS Decree No. 18/2008 on the liquidity of banks entered into force. The purpose of the new provisions was to ensure that banks and branches of foreign banks manage their assets and liabilities in such a way as to maintain liquidity. This amending Decree also laid down a new liquid asset ratio, as the ratio of total liquid assets to total volatile liabilities. The liquid asset ratio must not exceed 1. On 19 November 2008, the Supervisory Department wrote to banks and branches of foreign banks regarding the submission of information on amounts of liquid assets and volatile liabilities. Every Monday throughout 2009, banks and selected branches of foreign banks submitted this information to NBS (with the information for each working day of the previous week stated separately). A total of three banks and four branches of foreign banks failed to achieve a ratio of 1 on a daily basis.

Each week from February 2009, banking groups submitted a list of all new transactions under which a bank belonging to the group incurred a claim on or liability to the parent company, a subsidiary, another company belonging to the parent company's consolidated group, or a customer or other bank (where the transaction was undertaken with the parent company, subsidiary of the reporting bank or another company belonging to the parent company's consolidated group).

During 2009, the off-site supervisors provided additional information for the needs of on-site supervision before the commencement of on-site supervisions at individual banks, as well as tips based on information obtained about the bank.

As part of the on-site supervision preparation process, staff of the Quantitative Analyses Section supported on-site supervisions by verifying the portfolio valuations at

supervised entities. For this purpose, their primary information source for market prices of securities was the Bloomberg system. The Reuters system is the main information source for the yield curve rates that are used for the theoretical valuation of financial instruments.

In validating IRB models, the off-site supervisors participated in the analysis of banks' credit portfolios and the calculation of risk-weighted assets for the purpose of calculating capital adequacy.

In accordance with the Banking Act, the internal capital adequacy and risk profile of all banks was evaluated. The evaluations included both quantitative and qualitative elements, with the quantitative evaluations being based on 2008 results and the qualitative evaluations on the results of on-site supervisions. As part of its communication with each bank, the supervisory authority compared the results of its evaluation with the results of the bank's internal capital adequacy assessment processes. Banks were informed about the evaluation results either in writing or at a meeting. The supervisor informed each bank separately of the amount of own funds that it deemed to be the minimum for capital requirement coverage. In one case, the supervisor found the level of internal capital to be insufficient and requested that the bank increase its regulatory capital.

The supervisor subsequently analysed the results of internal capital adequacy assessment for the banking sector as a whole and then presented these results to the banks' representatives at a working meeting in November.

The evaluation of banks' internal capital adequacy and their risk profile formed part of the evaluation of groups on a consolidated basis that was carried out at the level of home supervisors.

## 5.2 Capital market

### On-site supervision

In 2009, on-site supervisions were conducted according to the annual plan of supervision, which was drawn up with regard to the supervisions carried out in previous years, i.e. the focus was on companies where an on-site supervision had not been carried out yet and on the sector's most significant companies.

On-site supervisions were conducted at the following management companies in 2009:

- **Asset Management Slovenskej sporiteľne, správ. spol., a.s.** – a supervision focused on the implementation of measures adopted by the company on the basis of a supervision carried out in October 2007.
- **Alico Funds Central Europe, správ. spol., a.s.** (operating under the business name AIG Funds Central Europe správ. spol., a.s. until 20 October 2009) – a comprehensive supervision was conducted at the company; it focused on the activities of the company and the mutual funds under its management, and on the company's compliance with the Collective Investment Act, the Securities Act, and other laws and generally binding legal regulations. The supervision commenced in 2008 and was completed in 2009.
- **Allianz Asset Management, správ. spol., a.s.** – a comprehensive supervision was conducted at the company in line with the plan of supervision; it focused on the following areas: the company's compliance with the conditions under which it performs its activities; the management of open-ended funds; the company's

compliance with the conditions laid down in its authorisation to establish and operate an asset management company and its authorisation to establish open-ended funds; the disclosure requirement; the promotion of open-ended funds; the material accuracy of selected statements and reports; the internal control system; and the company's compliance with conditions laid down in its authorisation to provide investment services under the Collective Investment Act.

- **Prvá penzijná, správ. spol., a.s.** – a follow-up supervision was conducted in line with the supervision plan; it focused on the company's compliance with measures taken in response to the findings of an on-site supervision conducted in 2007.

#### **Securities depository Centrálny depozitár cenných papierov SR, a.s. (CDCP)**

An on-site supervision was carried out at Slovakia's central securities depository in 2008; it focused on the following areas: the procedure followed by CDCP when making a change to list of registered shareholders maintained by CDCP; contractual documentation and forms related to the register of registered shares; and legal risk.

#### **Bratislava Stock Exchange (BSSE)**

The supervision of the BSSE during 2009 largely involved the continuous monitoring of completed transactions in securities admitted to trading on the BSSE's individual markets within the scope of its trading system modules. The monitoring focused on possible cases of insider dealing and market manipulation, particularly in regard to trading in shares of issuers for which a compulsory takeover bid had been announced and to whether the activities of BSSE members complied with the principles of fair trading and the exercise of due professional care.

#### **Off-site supervision**

The main task of off-site supervision in the area of collective investment in 2009 was to support on-site supervision in both the preparation and execution of supervisions. This support mainly involved verifying portfolio valuations at the supervised entities. The necessary information was obtained from reports submitted on a monthly basis by the supervised entities to NBS via the APS STATUS DFT system, as well as from on-site supervisions carried out at these entities (a more detailed description of the market and theoretical valuation methods, and examples of the theoretical price calculation). For verifying the valuation of financial instruments, the primary information source for market prices of securities was the Bloomberg system. The Reuters system is the main information source for the yield curve rates that are used for the theoretical valuation of financial instruments.

Regarding the valuation of financial instruments in mutual fund portfolios, a new piece of legislation entered into force in 2009. This new regulation takes into account the valuation procedures for pension saving (under PFMCs and SPMCs) and therefore allows the same approach to valuation to be taken irrespective of the sector. Along with a change to valuation procedures there was also an amendment to the content of information reported by the management companies that manage the respective mutual funds. These new reports reduce the scope of additional valuation-related information that in the past had to be acquired during the supervision. The fact that some analyses can only be carried out on the basis of such reports is simplifying, expediting and, most importantly, improving the quality of off-site supervision. With the amended reports, many of the previously recorded shortcomings have been successfully eliminated.

## **Issuers of securities and issuers of public offerings**

In 2009, NBS exercised off-site supervision in order to verify compliance with the disclosure requirement by issuers whose securities were admitted to trading on the Bratislava Stock Exchange (BSSE) regulated market under Act No. 429/2002 Coll. on the stock exchange and under Act No. 566/2001 Coll. on securities and investment services, and compliance with the reporting requirement by issuers of public offerings.

The number of issuers whose securities were admitted to trading on the BSSE regulated market and which were subject to the disclosure requirement under the Stock Exchange Act, was 144 as at 1 January 2009 and 125 as at 31 December 2009. There were four issuers of public offerings which were subject to the disclosure requirement under Section 130 of Act No. 566/2001 on securities and investment services.

In 2009, NBS checked annual reports, semi-annual reports, preliminary statements, and other documents submitted in line with the disclosure requirement. NBS also evaluated the extent to which issuers had complied with the disclosure requirement in 2008, under Section 34 of Act No. 429/2002 Coll. on the stock exchange. As of the last day of the statutory deadline for the submission of annual reports (30 April 2009), there were 134 issuers who had securities admitted to trading on the BSSE regulated market and 4 public offering issuers who had a duty to submit an annual report. Annual reports for 2008 were submitted to NBS by 131 issuers of securities and by all four of the public offering issuers. A total of 25 securities issuers were instructed to provide additional information under the disclosure requirement, either to NBS, to the BSSE or to both institutions. With effect from 31 August 2008, BCPB decided to end trading on the regulated market in the securities of 4 issuers, since they had failed to release and submit to the BSSE an annual report for 2008. Of the 2008 annual reports submitted by securities issuers to NBS, a majority were incomplete.

Issuers whose securities were admitted to trading on a regulated market were required to submit to NBS a semi-annual financial report for 2009, prepared in accordance with Section 35 of Act No. 429/2002 Coll. on the stock exchange. In total, 125 securities issuers were required to submit a semi-annual report for 2009, and 122 issuers met this requirement. All four issuers of public offerings met the disclosure requirement for the first half of 2009. A total of 12 issuers were notified by NBS of their failure to satisfy the disclosure requirement vis-à-vis NBS and/or the BSSE. NBS regularly checked compliance with the disclosure requirement for the first half of 2009. Two issuers that failed to satisfy the disclosure requirement for this period had their securities excluded from trading on the BSSE regulated market. Most of the verified reports for the first half of 2008 were incomplete. A majority of the annual reports for the first half of 2009 submitted by securities issuers to NBS were incomplete.

Off-site supervision was also exercised under Section 36 of Act No. 429/2002 Coll. on the stock exchange, according to which an issuer of shares admitted to trading on a regulated market is required to publish a preliminary statement made by its managing body within the first six months of the accounting period and another preliminary statement within the second six months of the accounting period. The duty of an issuer of bonds admitted to trading on a regulated stock exchange to publish a preliminary statement made by its managing body was abolished as from 1 January 2009.

Issuers of public offerings are not required to submit a preliminary statement made by their managing bodies.

NBS checked the completeness of both the reports delivered by the issuers and the electronic versions of these reports published on the Internet. In addition to these reports, securities issuers were also required to submit to NBS other regulated information under the Stock Exchange Act and to publish this information.

In exercising off-site supervision over bond issuers, NBS also checked their compliance with the requirement to make the issuing conditions available to the public under Section 3(5) of Act. 530/1990 Coll. on bonds ('the Bond Act'), and with the requirement to present the issuing conditions to NBS under Section 8(1) of the Bond Act. NBS subsequently ensured that the presented bond issuing conditions were published in the Commercial Bulletin under Section 3(5) of the Bond Act. In 2009, 76 bond issues were floated by 27 bond issuers, with all the issuers meeting the above requirements. Since 2007, NBS has been monitoring compliance with the duty of issuers to pay yields on bonds within the prescribed time limit, on the basis of the bond issuers' annual summary reports.

## 5.3 Insurance sector

### On-site supervision

In 2009, on-site supervisions were conducted according to the annual plan of supervision, which was drawn up with regard to the supervisions carried out in the previous years, i.e. the focus was on companies where an on-site supervision had not been carried out yet and on the sector's most significant companies.

In 2009, a total of five comprehensive supervisions, one thematic supervision and three follow-up supervisions were conducted at insurance companies, as follows:

- **Rapid life životná poisťovňa, a.s.** – a thematic supervision focused on the following areas: the insurer's creation of technical provisions; documents for the creation of technical provisions; accounting for technical provisions; the administration of insurance contracts; the settlement and payment of insurance claims; the data and information submitted by the insurer to Národná banka Slovenska in the form of statements, reports, summaries and other disclosures.
- **Amslico AIG Life poisťovňa a.s.** – a comprehensive supervision begun in 2008 in line with the supervision plan was concluded in 2009; it focused on the insurer's compliance with Act No. 8/2008 Coll. on insurance, with other generally binding legal regulations and with the conditions laid down in its authorisation to perform insurance activities.
- **KOOPERATIVA poisťovňa, a.s. Vienna Insurance Group** – a comprehensive supervision was conducted in line with the supervision plan; it focused on the insurer's compliance with Act No. 8/2008 Coll. on insurance, with other generally binding legal regulations and with the conditions laid down in its authorisation to perform insurance activities.
- **Poisťovňa Slovenskej sporiteľne, a.s. Vienna Insurance Group** – a comprehensive supervision was conducted in line with the supervision plan; it focused on the insurer's compliance with Act No. 8/2008 Coll. on insurance, with other generally binding legal regulations and with the conditions laid down in its authorisation to perform insurance activities.
- **KOMUNÁLNA Poisťovňa, a.s. Vienna Insurance Group** – a comprehensive supervision was conducted in line with the supervision plan; it focused on the insurer's compliance with Act No. 8/2008 Coll. on insurance, with other generally binding legal regulations and with the conditions laid down in its authorisation to perform insurance activities.

- **ING životná poisťovňa, a.s.** – a comprehensive supervision and follow-up supervision were conducted in line with the supervision plan. The aim of the comprehensive supervision was to check the insurer's compliance with Act No. 95/2002 Coll. on insurance and Act No. 8/2008 Coll. on insurance, with other generally binding legal regulations, and with the conditions laid down in its authorisation to perform insurance activities. The follow-up supervision focused on the implementation of selected measures to remove and prevent a recurrence of shortcomings identified in a 2008 supervision, which had been conducted on the basis of Authorisation No. ODO–1732/2008. As an invited entity under Section 11 of Act No. 747/2004 Coll. on financial market supervision, an employee of De Nederlandsche Bank also participated in the on-site supervision.
- **Groupama poisťovňa, a.s.** – a follow-up supervision was conducted in line with the supervision plan for 2009; it focused on the insurer's implementation of measures to remove and prevent a recurrence of shortcomings identified in a 2007 supervision, which had been conducted on the basis of Authorisation No. ODO–9551/2007 at the company OTP Garancia poisťovňa, a.s.
- **Groupama životná poisťovňa, a.s.** – a follow-up supervision was conducted in line with the supervision plan for 2009; it focused on the insurer's implementation of measures to remove and prevent a recurrence of shortcomings identified in a 2007 supervision, which had been conducted on the basis of Authorisation No. ODO–10766/2007 at the company OTP Garancia životná poisťovňa, a.s.

#### **Off-site supervision**

As regards off-site supervision, the Supervision Unit checked the standard statements and reports of insurance companies for 2008 (audited) and for the individual quarters of 2009 (interim), as well as ad-hoc reports delivered via the APS STATUS DFT information system. The insurance companies' quarterly financial statements are analysed in the FINAN system (a file of financial indicators). During the course of 2009, a number of indicators in the FINAN system were amended or supplemented due to changes in the scope of data submitted by insurance companies from April 2008. The financial indicators were compiled for 2008 (retrospectively) and for each quarter of 2009.

A key task of off-site supervision in the area of insurance in 2009 was to support on-site supervision in both the preparation and execution of supervisions. This support mainly involved verifying portfolio valuations at the supervised entities. The necessary information was obtained from quarterly asset statements submitted by the supervised entities and from on-site supervisions carried out at the supervised entities (a more detailed description of the methods of market-based and theoretical valuation; data specifying the information obtained from quarterly statements). For verifying the valuation of financial instruments, the primary information source for market prices of securities was the Bloomberg system. The Reuters system is the main information source for the yield curve rates that are used for the theoretical valuation of financial instruments.

The verification of data contained in statements and reports submitted by insurance companies did not reveal any significant shortcomings.

The errors that were recorded were usually caused by human failure (e.g. during the manual entering of data into the system) or information system failure.

As for the file of financial indicators, the focus of Národná banka Slovenska in 2009 was mainly on the combined ratio in individual lines of non-life insurance, which takes into account the loss ratio and expense ratio of the insurance lines (it represents expenses as a share of claim payments, expenses as a share of insurance administration, and the creation of technical provisions as a share of premiums written). In the case of nine insurance companies providing non-life insurance, the combined ratio for certain insurance lines calculated on the basis of audited data as at 31 December 2007 and as at 31 December 2008 (i.e. for consecutive periods) exceeded 100%.

During 2009, the Supervisory Department also checked how insurance companies providing motor vehicle third-party liability insurance were calculating the transfers (8%) from premiums for this type of insurance to a separate account of the Ministry of Interior of the Slovak Republic. After finding differences in the approach to this calculation, the Supervisory Department in cooperation with the Ministry of Finance of the Slovak Republic initiated the creation of a uniform methodology. In this regard, the Supervisory Department was actively involved in the drafting of a Methodological Guideline on the calculation of transfers made to the separate account of the Ministry of Interior of the Slovak Republic.

Another area in which the Supervisory Department cooperated actively in 2009 was the assessment of written notifications of an intention to delegate the performance of one or more activities to another entity authorised to perform the respective activities, under Section 14 of Act No. 8/2008 Coll. on insurance and on amendments to certain laws as amended.

### *Intermediaries of insurance, reinsurance and investment services*

#### **On-site supervision**

The aim of on-site supervisions conducted at intermediaries of insurance and reinsurance was to check compliance with relevant generally binding legal regulations in force in Slovakia.

In 2009, on-site supervisions were conducted at the following companies:

#### *Insurance intermediaries:*

- EPM, s.r.o. Bratislava,
- BROKERNET, s.r.o. Bratislava,
- INIS International Insurance Service, s.r.o., Sabinovská 6, Bratislava,
- BPT LEASING, a.s., Drieňova 34, Bratislava,
- B&H Insurance Consulting, s.r.o.,
- Fincentrum a.s., Gorkého 3, 811 01 Bratislava,
- TFC Slovakia, a.s. Bratislava,
- Poistpartner, s.r.o., Bratislava,
- H&H Partnership, s.r.o. Banská Bystrica,
- Aegon partner s.r.o. Bratislava,
- Happy Trend, s.r.o. Bratislava,
- AVUS International, s.r.o. Bratislava,
- I.B.I.S., s.r.o., Jozefa Hagaru 4, Bratislava, IČO: 31 443 427,
- BRVZ s.r.o., Mlynské Nivy 61/A, 825 18 Bratislava,
- COFIDIS, a.s., TOWER 115, Pribinova 25, 811 09 Bratislava,
- B&H Insurance, s. r. o., Bratislava,

- B.O.F. poisťovací maklér, s.r.o., Bratislava.

#### *Investment intermediaries*

- **CMS Capital Market, a.s.** – an supervision was conducted at the company and focused on the following areas: the company's scope of activities and its organisation and governance; the company's activities as an investment intermediary under the Securities Act; and the company's compliance with the conditions laid down in its authorisation to provide investment intermediary services.
- **FAROS Financial, s.r.o.** (previously operating under the business name SLOVAKIA Capital, s.r.o.) – an supervision was conducted at the company and focused on the following areas: the company's scope of activities and its organisation and governance; the company's activities as an investment intermediary under the Securities Act; and the company's compliance with the conditions laid down in its authorisation to provide investment intermediary services.

## 5.4 Pension savings sector

### **On-site supervision**

In 2009, the on-site supervision of pension fund management companies included one comprehensive supervision, one follow-up supervision and one thematic supervision, as follows:

- **AEGON, d.s.s., a. s.** – a comprehensive supervision was conducted at the company and focused on the following areas: the company's organisation and governance; investment and risk management; the valuation of pension fund assets; the calculation of net asset value and the current value of a pension unit; the management of savers' personal pension accounts and pension fund fees; retirement pension saving contracts; savers' complaints; and the internal control system.
- **Allianz - Slovenská dôchodková správcovská spoločnosť, a.s.** – a follow-up supervision at the company focused on the implementation of remedial measures adopted on the basis of a 2008 comprehensive supervision at the company. The follow-up supervision, however, covered also the following areas: the company's organization, governance and legal framework for operations; investment management and activities related to increasing the value of pension fund assets, including the settlement of transactions; risk management and compliance with statutory limits concerning the composition of pension fund assets; the valuation of pension fund assets; accounting and reporting; retirement pension saving contracts; internal control and complaints; advertising and promotional activities.
- **AXA, d.s.s., a.s.** – a thematic supervision was conducted at the company and focused on the following areas: elements of the personal accounts of participants or beneficiaries, and elements of the personal account statements issued to participants or beneficiaries.

In 2009, the on-site supervision of supplementary pension asset management companies included four on-site supervisions, as follows:

- **ING Tatry - Sympatia, d.d.s., a.s.** – a comprehensive supervision was conducted in line with the supervision plan and focused on the following areas: the activities of the supplementary pension asset management company; the company's compliance with generally binding legal regulations, with its Articles of Association, with the rules of its supplementary pension funds, and with the conditions laid down in its authorisation; and the material accuracy of selected statements and reports.
- **Doplnková dôchodková spoločnosť Tatra banky, a.s.** – a comprehensive supervision was conducted between 2 March and 30 April 2009 in line with the supervision plan; it focused on the following areas: the activities of the supplementary pension asset management company; the company's compliance with generally binding legal regulations; compliance with its Articles of Association, with the rules of its supplementary pension funds, and with the conditions laid down in its authorisation; and the material accuracy of selected statements and reports.
- **AEGON, d.d.s., a.s.** – a comprehensive supervision was conducted at the company and focused on the following areas: the company's organisation and governance; investment and risk management; the valuation of supplementary pension fund assets; the calculation of net asset value; the management of participants' personal accounts; pension fund fees; participant contracts; daily statements; and the internal control system.
- **STABILITA, d.d.s., a.s.** – a comprehensive supervision was conducted at the company and focused on the following areas: the company's organization, governance and legal framework for operations; investment management and activities related to increasing the value of supplementary pension fund assets, including the settlement of transactions; the valuation of assets in supplementary pension funds; accounting and reporting; pension fund fees; the management of participants' personal pension accounts; participant contracts; and the internal control system and complaints.

### **Off-site supervision**

In 2009, off-site supervision of the retirement pension savings sector covered six pension fund management companies managing a total of 18 pension funds, and four banking institutions performing depository activities under Act No. 43/2004 Coll.

Off-site supervision of the supplementary pension savings sector in 2009 covered five supplementary pension asset management companies managing a total of 15 supplementary pension funds (AEGON d.d.s., a.s. had still not established a payout supplementary pension fund, due to the short period of its operation in the market), and four banking institutions providing depository activities under Act No. 650/2004 Coll.

The standard tasks of off-site supervision included checking pension fund management companies, supplementary pension fund asset management companies, and depositories of pension funds for their compliance with the duty to inform NBS of the balance of pension fund assets. The respective reports constitute the main source of information for off-site supervision. On the basis of the information so obtained, the risks attaching to the transactions undertaken and their effect on the risk level of pension fund portfolios are evaluated.

The focus of off-site supervision is on independently validating the valuation of financial instruments included in pension fund assets and on checking whether these financial instruments have been acquired in accordance with statutory provisions. Besides the above-mentioned reports, the main sources of information used for checking valuations are the

Bloomberg and Reuters systems, stock exchange prices, and other information obtained during the course of supervisions.

The process of off-site supervision includes the production of quarterly reports, mainly in order to monitor market risks in pension funds (using the VaR historical simulation method) and especially the sensitivity of pension funds to changes in interest rates, share prices and exchange rates. The VaR calculation is carried out for the full range of market risks (taking into account all types of market factors simultaneously), as well as separately for interest rate risk (taking into account only interest and discount rates), currency risk (only exchange rates), and equity risk (only share prices). Following this calculation, the ratio of VaR values to the overall value of the portfolio is calculated. This represents the principal basis on which market risks are calculated.

The reports also integrate the results of stress testing, the purpose of which is to point out unexpected losses that could arise under exceptional but plausible developments in market factors. Based on the stress testing outputs, the supervisors analysed the scenarios under which the largest hypothetical losses were recorded in the different types of pension funds and compared their effects on the profits of these funds.

In 2009, within the scope of information support, off-site supervisors put into operation the *Early Warning System*, a uniform information portal. This portal adds a new layer of presentation and visualisation to the original information system – *System of Pillar II Pension Limits*.

Information on the average return on pension funds and the average return achieved by market participants ceased to be published on the NBS website as from July 2009, under an amendment to Act No. 43/2004 Coll.

In connection with legislative changes that entered into force on 1 July 2009, the off-site supervisors developed an automated application – remote off-site parallel management of guarantee account clearing at NBS for all pension funds. The *Early Warning System* therefore satisfies the requirement of the statutory provisions concerning the establishment of a guaranteed account and fees for increasing the value of a pension fund.

In the second half of 2009, the *Early Warning System* information portal was expanded to include another segment of the Slovak financial market. For the off-site supervision of the supplementary pension savings sector, the supervisors successfully completed the development of an automated application for monitoring compliance with rules on restricting and spreading the risks in supplementary pension funds, in accordance with Act No. 650/2004 Coll. The value added by this application includes the identification of strategic investments by asset type, geographic breakdown and currency exposure, and the quantification of direct exposures. The application identifies what in amount terms are the 10 most significant share, bond and monetary investments in the supplementary pension savings sector. With this application in operation, a uniform systemic overview of the off-site supervision of the Slovak pension sector is provided in the single information portal *Early Warning System*.

## **5.5 Foreign exchange supervision**

Foreign exchange supervision focused on checking compliance with the reporting requirement, usually at the initiative of the NBS Statistics Department. In all cases where

foreign exchange supervision focused on compliance with the foreign exchange **reporting requirement**, the supervisors found that requirement had not been met.

In the area of **currency exchange activities**, the supervisors checked mainly the prescribed documentation (purchase and sale statements, foreign exchange journals, etc.).

In 2009, foreign exchange supervision included on-site supervisions at the following entities:

#### **Currency exchange activities**

- PRO 4, s.r.o. Bratislava,
- BRIXGREEN, s.r.o. Bratislava,
- Eva Magyaričsová, 929 01 Dunajská Streda,
- Marta Medvecká - MARTA ĽS, 913 04 Chocholná-Velčice.

#### **Reporting requirement**

- Sky Europe Airlines. a.s. Bratislava,
- Georgia-Pacific Slovakia, s.r.o., Hlohovec,
- Böhm Fertigungstechnik – Slowakei, s. r. o., Trenčianska Turná,
- PCA Slovakia, s. r. o., Trnava.

In the first quarter of 2009, at the request of the NBS Licensing and Enforcement Department, written notices were sent to a total of 36 business entities which, according to the Department, had failed to submit to NBS materials and documents demonstrating their compliance with the statutory conditions and with the professional competence requirements defined in Section 17(8) of Act No. 340/2005 Coll. As regards the closing of this issue within the current period, it is being worked on by the NBS's Supervisory Department and the Licensing and Enforcement Department.

## 6. Other activities

### 6.1 Cooperation with foreign supervisory authorities

#### 6.1.1 Banks and investment firms

The process of establishing supervisory colleges in line with EU law continued in 2009. Responsibility for the supervision of EU cross-border banking groups at the consolidated level lies with the home supervisor. Národná banka Slovenska, operating at the consolidated level as the host supervisor, is a member of the supervisory colleges instituted for those banking groups that include entities falling under NBS's supervision in Slovakia.

By the end of 2009, in accordance with CEBS requirements, the supervisory colleges for each of the following banking groups had signed Multilateral Cooperation and Coordination Agreements on the Supervision of Banking Groups:

	Banking group	Slovak entity	Date of signing by host supervisor	Date of signing by home supervisor
1	Erste Group	SLSP, a.s.	16.12.2009	8.12.2009
2	OTP Group	OTP Banka Slovensko, a.s.	6.11.2009	1.11.2009
3	KBC Group	ČSOB, a.s.	29.12.2009	29.12.2009
4	UniCredit Group	UniCredit Bank Slovakia, a. s.	16.12.2009	16.12.2009
5	Commerzbank Group	COMMERZBANK Aktiengesellschaft, pobočka zahraničnej banky, Bratislava	4.12.2009	4.12.2009
6	Intesa Sanpaolo Group	VUB, a.s.	17.12.2009	23.12.2009
7	RZB Group	Tatra banka, a.s.	17.12.2009	8.12.2009
8	Volksbank Group	Volksbank Slovensko, a.s.	17.12.2009	8.12.2009
9	Dexia Group	Dexia Slovensko, a.s.	2.7.2009	22.12.2009
10	SG Group	Komerční banka Bratislava, a.s.	1.6.2009	29.6.2009
11	ING Group	ING Bank, N.V., pobočka zahraničnej banky	17.12.2009	8.12.2009

#### Unicredit Bank, Slovakia a.s.

- In January 2009, the supervisory college for UniCredit group met in Rome. The meeting was presented with the results of the Italian supervisor's evaluation of the Group's models for credit and operational risk and with the results of supervisions conducted by individual supervisory authorities.
- In April 2009, the supervisory college for UniCredit Group held a meeting in Vienna; the Italian supervisor presented the methodology of the Group's credit risk models and an agreement was reached on the scope of the other supervisors' evaluations of the models.
- In September 2009, the supervisory college for UniCredit Group met to discuss the annual Supervisory Review and Evaluation Process (SREP) and the consolidated assessment of the Group's risks.

### **COMMERZBANK Aktiengesellschaft, pobočka zahraničnej banky, Bratislava**

- In July 2009, the supervisory college for Commerzbank Group held a meeting at which the home supervisor presented the Group's strategic orientation, its risk profile, and the planned focus of supervision. The meeting was also presented with the host supervisors' evaluations of the Group's individual entities and with the focus of the supervision exercised over its subsidiaries or bank branches.

### **Slovenská sporiteľňa, a.s.**

- In October 2009, the supervisory college for Erste Group Bank met in Vienna to discuss and approve the text of a Multilateral Cooperation and Coordination Agreement on the Supervision of Erste Group. The most significant financial indicators of the bank members of Erste Group Bank were presented by individual supervisory authorities. Activities planned for on-site supervisions in 2010 were also discussed.

### **ČSOB, a.s.**

- In October 2009, the home and host supervisors of KBC Group took the first step in joint supervision of the Group. Their focus was on evaluating the ICAAP process, with the evaluation process itself divided into the following stages: 1st – general supervision at KBC (Q3 2009); 2nd – specific supervision at KBC to examine particular types of risk (Q1 2010); 3rd – local evaluation of the ICAAP process (Q2 2010); 4th – overall evaluation of the ICAAP process at KBC Group (Q3-4 2010).

### **OTP Banka Slovensko, a.s.**

- In November 2009, the supervisory college for OTP Group held a meeting at which the supervisors presented the results of their supervision of the Group in 2009. They also discussed the final version of the Multilateral Cooperation and Coordination Agreement on the Supervision of OTP Group.

### **VUB, a.s.**

- In January 2009, a meeting was held to discuss current developments within the Group in regard to the financial markets crisis.
- In July 2009, a presentation was given on ISP Group's approach to internal capital assessment.
- In November 2009, a meeting was held regarding the evaluation of the Group; it covered the SREP process for 2008, developments in the first half of 2009, and the plan of supervision for 2010.

### **Tatra banka, a.s**

- In February 2009, in Bratislava, NBS gave the home supervisor of RZB Group a presentation on developments in transactions conducted within the Group and their effect on the results of Tatra banka, a.s.
- In April 2009, a meeting was held in Vienna to discuss current developments within the Group in regard to the financial markets crisis, including the Group's preliminary results for 2008.

- In October 2009, a meeting was held in Vienna regarding the evaluation of the Group; it covered the SREP process for 2008, developments in the first half of 2009, and the plan of supervision for 2010.

#### **Volksbank Slovensko, a.s.**

- In February 2009, a meeting was held in Bratislava at which NBS presented the home supervisor of Volksbank Slovensko with the entity's preliminary results.
- In April 2009, a meeting was held in Vienna to discuss current developments within the Group in regard to the financial markets crisis, including the Group's financial results for 2008.
- In June 2009, a meeting was held in Vienna at which the home supervisor presented the results of an on-site supervision focused on the ICAAP process.
- In December 2009, a meeting was held in Vienna regarding the evaluation of the Group; it covered the SREP process for 2008, developments in the first half of 2009, and the plan of supervision for 2010.

#### **Dexia Slovensko, a.s.**

- In March 2009, a meeting was held to discuss current developments within the Group in regard to the financial markets crisis, with a focus on the evaluation of the Group's risk profile.
- In July 2009, NBS and the Belgian supervisory authority (CBFS) held a bilateral meeting to discuss serious shortcomings revealed by NBS's supervisory activities.
- In October 2009, a meeting was held regarding the evaluation of the Group's ICAAP process; it included a presentation by Dexia Group representatives and addressed the supervisors' preparations for a joint supervision focused on the ICAAP process.

#### **Komerční banka Bratislava, a.s.**

- In March 2009, a meeting was held regarding current developments within the Group in relation to the financial markets crisis and regarding the evaluation of the Group's risk profile.
- In October 2009, a meeting was held regarding the evaluation of the Group; it covered the SREP process for 2008, developments in the first half of 2009, and the plan of supervision for 2010.

#### **ING Bank, N.V., pobočka zahraničnej banky**

- In January 2009, a meeting was held regarding current developments within the Group in relation to the financial markets crisis and regarding the evaluation of the Group's risk profile.

### **6.1.2 Capital market**

In November 2009, representatives of Národná banka Slovenska took part in an international workshop of representatives of associations in the collective investment sector and of supervisory authorities from the V4 countries. Held under the aegis of the Hungarian Financial Supervisory Authority (HFSA) and organised by the Association of Hungarian Investment Funds and Asset Management Companies (BAMOSZ), the event focused on the

future development of the collective investment sector as well as on potential cooperation in the region.

### **6.1.3 Insurance sector**

In 2009, meetings were held of the supervisory authorities of the following EU cross-border insurance groups that have a branch or branches in Slovakia:

- Eureka Group (Union poisťovňa, a.s.),
- Generali (Generali Slovensko poisťovňa, a.s.),
- Allianz Group (Allianz – Slovenská poisťovňa, a.s.),
- Vienna Insurance Group (Kooperativa poisťovňa, a.s. VIG, Komunálna poisťovňa, a.s. VIG, Kontinuita poisťovňa, a.s. VIG a Poisťovňa Slovenskej sporiteľne, a.s. VIG),
- HDI Versicherung (POISTŔOVŇA HDI-GERLING Slovensko, a.s.),
- BNP Paribas Assurances (Poisťovňa Cardif, a.s.),
- ALICO Group (Amslico AIG Life poisťovňa a.s.),
- ING Group (ING Životná poisťovňa a.s.).

The meetings included presentations of financial indicators, findings from on-site supervisions conducted during the previous year, and problems that the individual supervisor authorities had come across during the course of their supervisory activities. The meetings were also used to discuss the preparation and implementation of joint supervisions and the subsequent presentation of the conclusions arising from joint supervisions.

Regarding preparations for the introduction of the new regulatory regime for the insurance sector (Solvency II), the issue of cooperation in developing internal SCR calculation models between, on one side, home supervisors and other supervisory authorities, and, on the other side, the parent companies of insurance groups was discussed.

In June 2009, a meeting was held with staff from Česká národní banka for the purpose of sharing experiences in the area of insurance sector regulation and discussing mutual cooperation in the Solvency II project.

## **6.2 Activities of international bodies**

### **6.2.1 Banks and investment firms**

#### *6.2.1.1 Participation in the drafting of European Union legislation*

In addition to performing its usual activities on EU working groups and committees, Národná banka Slovenska contributed significantly to the inclusion of Slovakia's requirements in the text of EU Directives amending Directive 2006/48/EC of the European Parliament and of the Council of 14 June 2006 relating to the taking up and pursuit of the business of credit institutions (recast) and Directive 2006/49/EC of the European Parliament and of the Council of 14 June 2006 on the capital adequacy of investment firms and credit institutions (recast). During 2009, NBS was also putting forward its comments at EU Council working groups. The result was the approval of the following Directives with direct application in Slovakia:

- Commission Directive 2009/27/EC of 7 April 2009 amending certain Annexes to Directive 2006/49/EC of the European Parliament and of the Council as regards technical provisions regarding risk management;

- Commission Directive 2009/83/EC of 27 July 2009 amending certain Annexes to Directive 2006/48/EC of the European Parliament and of the Council as regards technical provisions concerning risk management;
- Directive 2009/111/EC of the European Parliament and of the Council of 16 September 2009 amending Directives 2006/48/EC, 2006/49/EC and 2007/64/EC as regards banks affiliated to central institutions, certain own funds items, large exposures, supervisory arrangements, and crisis management.

Credit rating agencies play a significant role in global securities markets and banking markets, since their credit ratings are used by investors and governments when taking investment and financial decisions. Národná banka Slovenska participated in the adoption of the EU's Regulation on credit rating agencies (approved by the European Parliament in September 2009), which forms part of the European Commission's response to the financial crisis. It has been decided that Národná banka Slovenska will become the supervisory authority for credit rating agencies in the territory of Slovakia.

#### ***6.2.1.2 Banking Supervision Committee***

The **Banking Supervision Committee (BSC)** of the European System of Central Banks is tasked with monitoring and evaluating developments in the European financial sector in terms of financial stability, analysing regulatory requirements for financial system stability, strengthening cooperation and information exchange between central banks and the supervisory authorities of Member States, and cooperating in the drafting of ECB opinions on proposals of the European Commission. Over the course of 2009, the information exchanged between the BSC's members concerned mainly developments in the respective countries during the financial crisis and the measures taken by governments to support the financial system. The analyses produced at the sub-group level, as well as the discussions at this level, were largely centred on the following areas: the vulnerability of the EU financial system and the system's resistance to various shocks; the establishment of a new framework for financial market supervision in the EU; and the role of the BSC in setting up the European Systemic Risk Board (ESRB). The analysis reports were submitted to meetings of the ECB Governing Council, as well as to meetings of the Economic and Financial Committee (EFC). Another objective of the BSC is to enhance cooperation between supervisors and central banks across the EU for the purpose of maintaining financial stability.

- *Working Group on Developments in Banking (WGDB)* – In 2009, the WGDB conducted regular monitoring of structural changes in the European banking sector. Among the matters discussed at its meetings were the impact of the financial crisis on particular sectors in EU countries and the measures adopted by individual countries to mitigate the effects of the crisis. In 2009, the WGDB published the *Banking Structures Report* and mapped large banking groups in the EU in terms of their activities in individual EU countries. The September meeting of the WGDB was held at the headquarters of Národná banka Slovenska in Bratislava.
- *Working Group on Macro-Prudential Analysis (WGMA)* – In 2009, the WGMA produced the following periodic reports for the same year: the "Financial Stability Review" and "Banking Sector Stability Report", which together constitute a key pillar of the monitoring and evaluation of financial stability in the EU. The WGMA is also responsible for the collection of data used for the evaluation of financial stability. During 2009, the WGMA was mainly engaged in analysing the credit derivatives

market and the effect of these derivatives on financial stability, as well as the effect of the credit cycle on financial sector stability.

- *Working Group on Credit Registers (WGCR)* – The WGCR oversees the preparation and implementation of the international exchange of data from credit registers. The main changes under preparation in 2009 were an increase in the frequency of exchange, from a quarterly to monthly basis, the periodic two-way exchange of data on those residents who were granted a loan in a second country, and an improvement in the analyse of potential overlaps in exchanged data. NBS has not as yet participated in the data exchange.
- *Task Force on Crisis Management (TFCM)* – In 2009, the TFCM worked on the establishment of "Cross-Border Stability Groups". The purpose of such groups is to support cooperation between the supervisory authorities, central banks and ministries of finance of EU countries as part of a joint approach to addressing crisis situations in the financial sector.
- *BSC-CEBS Joint Task Force on the Impact of the New Capital Framework* – In 2009, this working group submitted two quantitative reports on capital requirements and on the capital positions of banks that use an internal ratings-based approach for the calculation of credit risk capital requirements. They also included a more detailed description of the proposed evaluation methodology for the procyclicality of the Basel II capital requirements and a first questionnaire-based qualitative assessment. The reports were submitted to the BSC and CEBS for discussion.

#### **6.2.1.3 The Committee of European Banking Supervisors**

**The Committee of European Banking Supervisors (CEBS)**, a Level 3 Committee under the Lamfalussy process, was established by a Decision of the European Commission. Apart from giving advice to the EC on banking matters, the CEBS focuses mainly on capital requirement rules for financial institutions with the aim of ensuring that the capital of financial institutions is more closely aligned with the risks they face. There were four CEBS meetings held in 2009.

- *Groupe de Contact (GdC)* – The GdC, an expert group of the CEBS, is devoted to the harmonisation of supervisory procedures and the exchange of information. The GdC's principal areas of work in 2009 were: cooperation between supervisors at the supervisory college level; recommendations on the management of liquidity risk and concentration risk; internal governance; practical procedures for the assessment of banks under Pillar 2, crisis management; and stress testing.
- *Subgroup on Operational Networking (SON)* – The SON is tasked with supporting cooperation among supervisors, including the cooperation referred to in Article 129 of Directive 2006/48/EC, and dealing with the implementation of AMA and IRB approaches from the view of both supervisors and banking groups.
- *Pillar 2 Convergence Network (P2CN)* – The P2CN focuses on issues concerning the application of supervisory procedures under Pillar 2, its main task being to harmonise supervisory authorities' approaches, procedures and assessments within the Pillar 2 framework of the CRD. The participation of NBS representatives in the P2CN's activities in 2009 related mainly to the drafting of a new CEBS guideline on concentration risk management and to the clarification of matters concerning the

preparation of a new guideline on interest rate risk in the banking book. A survey of the approaches taken by local supervisors to the recognition of diversification effects under Pillar 2 included questions prepared at the Group de Contact level.

- *Task Force on Liquidity Risk Management* – This task force is a GdF working group responsible for producing some of the more detailed recommendations of the CEBS's *Technical Advice on Liquidity Risk* as well as for addressing other issues in the area of bank liquidity (including interactions with other working groups). In 2009, a survey was carried out in which individual supervisory authorities evaluated the liquidity problems that had arisen in their countries as a consequence of the financial crisis and presented solutions to these problems. In June 2009, the CEBS published its Liquidity Identity Card, a document intended to provide supervisors of European cross-border banking groups with a single prudential language for communication and the exchange of information, in particular within supervisory colleges. In December, a Guideline specifying the adequate size and structure of banks' liquidity buffers was approved. An institution's liquidity buffer represents the aggregate of its most liquid assets which can be applied against liquidity shortages over a period of at least one month without necessitating any change in the trading model.
- *Passport Experts Network* – In 2009, this operational group worked mainly on aspects of the single passport for countries of the European Economic Area, in order to streamline processes and procedures concerning the single passport issue in EEA countries. The group's meetings (one in 2009) were attended by representatives of EEA countries' supervisory authorities.
- *Anti Money Laundering Task Force (AMLTF)* – CEBS Secretariat, London – the AMLTF, as a joint body of the three Level 3 Committees, comprises representatives of Member States' supervisory authorities in the areas of banking, the capital market and insurance. Its role is to implement the EU's "Third Directive" on anti money laundering and terrorist financing in Member States, with a focus on the practical issues related to the Directive's application, and to implement Regulation (EC) No 1781/2006 on information on the payer accompanying transfers of funds (in force across the EU since 1 January 2007), again with particular regard to the practical issues of application. AMLTF meetings are held as necessary, usually once or twice a month.
- *Sub-Group on Operational Risk (SGOR)* – As the direct successor of the NOVI-O working group, the SGOR is responsible for supporting validation practices in relation to operational risk. Its aim is to support the exchange of information on technical aspects in the given area and to identify problems that require additional inputs from the CEBS. In 2009, the SGOR met twice and its activities were largely focused on the drafting and reviewing of various guidelines in cooperation with other working groups. It produced documents on operational risk mitigation techniques, concentration risk, and stress testing. The SGOR is also working closely with the SIGOR group on defining the content of statements related to operational risk.

- *EGFI Subgroup on Reporting* – This working group mainly produces proposals for the detailed content of financial reporting (FINREP) and common reporting (COREP). During 2009, its attention centred on financial reporting, in particular the production of the final draft of individual reports and a Guideline that the CEBS approved in December 2009. The implementation period for the Guideline is set for 2010 and 2011, with FINREP due to be implemented in practice from 1 January 2012. Since the end of 2009, the working group has focused mainly on producing the final proposal for COREP.
- *Working Group on Passporting (CEBS)* – This working group comprises representatives of EEA countries' supervisory authorities and it focuses on single passport issues of financial institutions operating in EEA countries. The working group meets once a year.
- *MONEYVAL – Council of Europe, Strasbourg* – The aim of this committee is to continually monitor compliance with and the implementation of measures to counter money laundering and terrorist financing in the Council of Europe's member countries, based on the FATF's 40+9 recommendations and the EU's Third Money Laundering Directive. To this end, the committee produces reports on its member countries, basing them on evaluations made by foreign experts directly in the countries concerned (the reports include ratings on each of the FATF's recommendation). After the reports are discussed at plenary meetings, the committee publishes them on its website and subsequently produces progress reports on the efforts of the member countries to address the deficiencies identified in their preventive and repressive regimes. The committee's membership comprises delegations of the member countries (including representatives of the financial intelligence unit, general prosecutor's office and supervisory authority). The committee holds plenary meetings at least three times a year.
- *Payment Service Directive Working Group* – This working group was tasked with preparing a guideline on the single passport for the newly-established 'payment institutions', with effect from 1 December 2009. Once it had accomplished this task, and the guideline had been issued, the working group was disbanded.
- *CEBS Review Panel Meetings* – This working group, developing its activities under the CEBS, evaluates compliance with selected EU procedures within the supervisory framework for credit institutions in individual EEA countries. The group meets around four times a year.
- *Supervisory Culture Network (CEBS)* – This working group focuses on the training of banking supervisors' staff, specifically the use of exchange schemes and study visits to raise the qualifications, expertise and knowledge of these staff. Participants in the group are representatives of the banking supervisors of EU Member States. The group held three meetings in 2009.

## 6.2.2 Capital market

### 6.2.2.1 *The Committee of European Securities Regulators (CESR)*

**The Committee of European Securities Regulators (CESR)**, a Level 3 Committee under the Lamfalussy process, was established by a Decision of the European Commission. Its task is to improve coordination among securities regulators across the European Union, to act as an advisory group to assist the European Commission, and to work to ensure more consistent

and timely implementation of community legislation in Member States. The Commission Decision that established the CESR (2001/527/EC of 6 June 2001) was superseded on 23 January by a new Commission Decision (2009/77/EC). At CESR plenary meetings, top representatives of national securities regulators, including Národná banka Slovenska, take key decisions (on the basis of qualified majority voting) concerning regulation and the exercise of supervision in the securities field and they approve Level 3 guidelines and other important documents relevant to the activities of the CESR and its members. In 2009, the CESR paid special attention to key issues concerning the establishment of the European System of Financial Supervisors and, within its framework, the European Securities and Markets Authority (ESMA), in accordance with the European Council's Recommendations of 19 June 2009 concerning a new supervisory architecture for the European financial system. Throughout 2009, the CESR's permanent and expert groups – which draft most of the specialist materials put to CESR plenary meetings for approval – continued operating in their original structure. Since 1 January 2010, however, they have been replaced by Standing Committees, on the basis of changes in the internal working structure approved by the CESR plenary meeting in December.

- *Review Panel (RP)* – This permanent operational group of the CESR is mandated to use information obtained from national supervisors to assess the degree to which national legislative environments are in harmony with EU requirements (at Level 1 and Level 2) as well as with CESR guidelines and standards at Level 3. The RP assesses the overall implementation process for particular EU Directives, provides common understanding, and expresses views on specific problems in the implementation process encountered by individual CESR members. The RP usually meets four times a year. Two reports produced by the RP on the basis of information obtained from comprehensive surveys were published in 2009: the *CESR Report on the mapping of supervisory powers, supervisory practices, administrative and criminal sanctioning regimes of Member States in relation to the Markets in Financial Instruments Directive (MiFID)* was published in February, and the *CESR Report on the mapping of supervisory powers, supervisory practices, administrative and criminal sanctioning regimes of Member States in relation to the Transparency Directive (TD)* in July. In the second half of the year, the RP produced and published Final Reports concerning the national supervisory authorities' peer review of the implementation of CESR's Standard No. 1 and Standard No. 2. The *Peer Review of the implementation of CESR's Guidelines to simplify the notification procedure of UCITS* was completed in 2009 and published in January 2010. The RP's work in 2009 was focused, however, on guidelines concerning the regulation of securities and markets, and specifically the differences among CESR members in implementing these guidelines into national law (owing to the scope for utilising national elections or stricter requirements). Thus at the request of ECOFIN and the European Commission, the RP mapped and produced a report concerning the MiFID and MAD Directives, which, along with proposals for dealing with the aforementioned differences, will be completed and published in 2010. The analysis of the implementation of the Prospectus Directive (focusing on the prospectus approval process in CESR members) is nearing completion and this work and the subsequent peer review will continue in 2010. The purpose of all these activities is to indicate the scope for, or to ensure, as much convergence as possible between the exercise of supervision in CESR member countries.
- *CESR-Pol* – In 2009, this operational group dealt mainly with issues concerning the regulation of short-selling in the EU (the establishment of a pan-European short selling disclosure regime). In regard to the Market Abuse Directive, it issued the

publication *Level 3 – Third set of CESR guidance and information on the common operation of the Directive to the Market*, and it made preparations for a review of the MAD Directive that is due to take place in 2010.

- *CESR-Fin* – In 2009, this operational group performed activities relating to the reclassification of financial instruments and cooperated (in line with CESR-Fin's mandate) in the drafting and amendment of particular International Accounting Standards (IFRS 7, IAS 24, IAS 39, IFRS 9). It engaged in discussions with the IASB and EFRAG institutions and was involved in global efforts to enforce International Accounting Standards. The CESR-Fin group continues to oversee the operation of the database of decisions taken by Member States' competent authorities in regard to the enforcement of financial reporting standards.
- *CESR MiFID Expert Group* – This group facilitates the smooth and uniform/consistent implementation of the MiFID Directive (with emphasis on its practical application), reports to the EC, performs other advisory and consulting activities, and provides guidelines and recommendations. In line with the restructuring plan for the CESR, as well as all the sectoral committees, the tasks of the MiFID Level 3 Expert Group have since the beginning of 2010 been assumed by the Standing Committee for Secondary Markets. In 2009, the expert group's work focused on, for example, the following areas: waivers from MiFID's pre-trade transparency requirements; the setting of procedures for the supervision of branches; MiFID complex and non-complex financial instruments for the purposes of the Directive's appropriateness requirements; rules for the operation of the MiFID databases; the transparency of corporate bond, structured finance product and credit derivatives markets; and the impact of MiFID on the functioning of equity secondary markets.
- *CESR Expert Group on Investment Management (CESR-IMEG)* – In 2009, the principal task of this expert group was to provide technical advice to the European Commission regarding future measures under Level 2 of the Lamfalussy process. For this purpose, it established four operational sub-groups covering the following areas: a) organisational requirements, conflicts of interest and operational rules of management companies; b) key investor information, c) the regulation of depositaries; and d) mergers of funds, master-feeder structures, and notification. Národná banka Slovenska was actively involved in the work of the sub-groups in areas (a), (c) and (d). Apart from providing technical advice to the European Commission, the expert group cooperated with the Operational Task Force sub-group, which focused on the area of risk management and measurement.
- *Transparency Expert Group* – In 2009, this expert group continued to focus on the mutual exchange of information, knowledge and experience. The main issues discussed at the group's three meetings during the year were the updating of the 'Q&A' document – the purpose of which is to give market participants answers to practical questions – and the analysis of the 2008 survey that mapped the implementation of the Transparency Directive (Directive 2004/109/EC) in individual Member States. In addition, information was exchanged in regard to the assessment of third countries' equivalent requirements for periodic financial reporting and the notification of major shareholdings. The group also addressed issues related to establishing and operating a common electronic network that will link national mechanisms for the storage of regulated information. The group's last meeting in 2009 prepared the document 'Call for Evidence on XBRL', the purpose of which is to map opinions on the use of the

XBRL format in the financial reports of issuers whose securities are admitted to trading on regulated markets.

- *CESR-Tech* – The tasks of this group included coordinating work on information systems for data exchange between regulators. The functionality of the TREM system was expanded with the addition of a central database of financial instruments. A new version of the system was prepared; it will include, for example, the voluntary exchange of data on OTC derivative transactions. At the request of the European Commission, the group launched work on a central database of credit ratings and credit rating agencies. Discussions were also held on other projects, such as the harmonised notification of UCITS funds and the exchange of data disclosed by securities issuers. The group also coordinated the preparation and launch of a new IT infrastructure.
- *Post-Trading Expert Group* – In 2009, the work of this operational group focused on post-trading activity in Member States of the European Union. The group continued to carry out its mandated tasks, i.e. to prepare the CESR's work related to the clearing and settlement of transactions in financial instruments. In doing so, it cooperated closely with European and international bodies (inter alia, the ESCB, EC, CPSS-IOSCO, OTC Derivatives Regulators' Forum and non-EU regulators). At the same time, the group continued to foster cooperation between EU countries in regard to clearing and settlement. Particular attention was paid to the Target2-Securities project and the project for a central depository of the European Union, as well as to the drafting of standards and recommendations for clearing and settlement, and to the cross-border settlement of securities. The group also produced a questionnaire designed to map legislative regulation in Member States in regard to settlement failures.
- *Takeover Bids Network* – In 2009, this operational group worked mainly on the acting in concert issue, defining key aspects and decisions in the assessment of acting in concert and presenting actual cases of acting in concert that occurred in certain Member States. The group also prepared a list of exemptions from the mandatory bid obligation which apply in individual Member States and a list of the circumstances applicable in individual Member States in which the offeror may change the consideration offered. In regard to the review of the Takeover Bids Directive (2004/25/EC) based on experiences gained during its application, the results of the takeover bids survey carried out in Member States in 2008 were analysed. The group's working discussions also covered the issue of takeover bid approval processes and relevant documents. There were 2 meetings of the Takeover Bids Network in 2009.
- *Task Force on Retail Investment Products* – In 2009, the main activities of this operational group concerned efforts to increase and improve investor protection in relation to packaged retail investment products. In this regard, it proceeded on the basis of a proposed horizontal legislative approach, which draws on the best of existing requirements and applies these to all relevant products. The group cooperated on the draft prospectus that represents a starting point for packaged retail investment products. The group's activities in regard to the preparation of packaged retail investment products were centred on three main areas: *Product Disclosures, Selling Practices, and Scope*.
- *Prospectus Contact Group* – The task of this group is to ensure the functioning of the passporting process and the harmonisation of procedures and solutions for practical

problems and issues related to securities prospectuses. Its principal output is the regularly updated and published content of the web page "Frequently asked questions regarding Prospectuses" on the CESR website. Also in 2009, the group addressed the equivalence of prospectuses from third countries and drafted an amendment to Decree 2003/71/ES. At the same time, the group cooperated with the CESR Review Panel in mapping the convergence of Member States' procedures related to the approving of securities prospectus, and it continued to collect statistical data for the European Commission.

- *TREM User Network* – This operational group deals with technical issues related to the exchange of information through the TREM system. In 2009, it addressed and tested mainly the quality and completeness of the data exchanged. Metrics for measuring this quality, and new control mechanisms for ensuring it, were proposed for both the TREM system and the Instrument Reference Data System (IRDS). In addition, the group handled other technical problems on an ad hoc basis.
- *CESR CRAs Task Force* – As of 1 January 2010, this expert group was transformed into the Standing Committee on CRAs. In 2009, its activities focused on applying and producing implementing measures for the EU Regulation on credit rating agencies. The group had five working meetings in 2009.

#### **6.2.2.2 International Organization of Securities Commissions**

Národná banka Slovenska is also a member of the **International Organization of Securities Commissions (IOSCO)**, as a signatory of the IOSCO Multilateral Memorandum of Understanding.

### **6.2.3 Insurance sector**

#### **6.2.3.1 The Committee of European Insurance and Occupational Pensions Supervisors**

**The Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS)**, a Level 3 Committee under the Lamfalussy process, was established by a Decision of the European Commission. The CEIOPS has the following main tasks: to provide advice on the drafting of implementation measures for framework directives (Level 2 activities); to issue supervisory standards, recommendations and guidelines for ensuring convergent and effective application of the regulations and directives; and to improve cooperation and the exchange of information between supervisors. At present, a priority task of the CEIOPS is the Solvency II project, the aim of which is to introduce a new, harmonised, risk-oriented regime of supervision and capital requirements for insurance companies and reinsurance companies operating in EU Member States, and to recodify 13 existing directives governing the activities of insurance and reinsurance companies. The CEIOPS structure includes working groups set up to produce specialist documents on the various topics that are submitted to the CEIOPS meeting for discussion and approval.

- *CEIOPS Financial Requirements Expert Group, Solvency II* – In 2009, this expert group was engaged mainly in the preparation of advice to the European Commission on Level 2 implementing measures for Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II). The group drafted almost 40 documents,

which were issued in three rounds for public consultation. Following the consultation process, the documents were reviewed again within the group, amended and then, after being approved at a CEIOPS Member's Meeting, sent to the European Commission. The main purpose of the recommendations was to propose to the Commission a more detailed specification of the requirements laid down in the Directive, and calculations, procedures and calculation input parameters. The parameters were based on analyses and studies designed to ensure that the proposed inputs for the calculation models were calibrated as appropriately as possible. Apart from the supervisory authorities, market representatives in possession of relevant data were also involved in some of the analyses. Those addressed in this regard included mainly large supranational insurance and reinsurance institutions and Groupe Consultatif Actuariel Européen, a grouping of national actuarial associations. The expert group held 11 working meetings in 2009.

- *CEIOPS Solvency II – Internal Governance, Supervisory Review and Reporting Expert Group* – In 2009, this expert group continued to give Level 2 advice to the European Commission, particularly in regard to Pillars 2 and 3, and to a lesser extent Pillar 1. In the case of Pillar 1, the group focused on the measurement of assets and liabilities (other than technical provisions). As for Pillar 2, it looked at qualitative requirements for the performance of insurance and reinsurance activities, especially at the following: securitisation; the raising of capital; investments in loans "repackaged" into tradable securities; the capital buffer under Pillar 2; licensing conditions for special purpose vehicles (SPVs); remuneration; and the administration and management system. In regard to Pillar 3, the group focused on the preparation of a common reporting format for supervisory purposes, on disclosure requirements in the insurance sector, and on transparency and accountability vis-à-vis the conduct of supervisory authorities' tasks. The group also participated in the preparation of an impact study for Level 2 implementing measures and in an analysis of the financial crisis, the object of which was to propose potential improvements to the Solvency II regulatory regime. The group also carried out several surveys, including one aimed at mapping the powers of supervisory authorities in the European Union. Towards the end of 2009, the group began work on Level 3 advice, particularly on the following matters: the prudent person principle; actuarial standards; finite reinsurance; the risk supervision framework; on-site supervisions; the own risk and solvency assessment (ORSA); the supervisory authority's control process; and reporting. The group is also involved in the consultation process for the preparation of international accounting standards (IAS/IFRS) regarding insurers and reinsurers and it acts as an information sharing platform for Member States in the field of accounting and financial reporting. In 2009, the group commence preparation of the Quantitative Impact Study (QIS) 5 (measurement of assets and liabilities [other than technical provisions]). The expert group held 9 meetings in 2009.
- *CEIOPS Solvency II – Internal Models Expert Group, Solvency II (IMEG)* – In 2009, the main task of this expert group was to draft advice for the European Commission on the text of Level 2 implementing measures concerning the Solvency II regulatory regime in regard to internal models (approval process – solo and group models, partial internal models; requirements for the use test, internal model governance, statistical quality standards, calibration standards, profit and loss attribution, calibration, documentation, external models and data, etc.). The group organised visits to selected insurance companies for the main purpose of deepening its knowledge about insurance companies' current approaches to internal models and using this knowledge to inform

its advice to the European Commission. In September 2009, the group hosted a seminar entitled *Internal Models*, at which staff of supervisory authorities gave presentations on different aspects of the Solvency II internal models framework.

- *CEIOPS Committee on Consumer Protection* – In 2009, the priorities of this working group were packaged retail investment products (PRIPs) and a review of the EU's Insurance Mediation Directive (IMD). PRIPs are products involving an investment risk on the customer's part and they include, for example, unit-linked/index-linked products in life insurance. As for customer protection in regard to PRIPs, it is essential that the customer is given adequate information about the specific product. A Task Force set up under the group produced a report on PRIPs for the European Commission, which focused on range of products that should be classified as PRIPs, the disclosure requirement, and business practice in the marketing of these products. Given the numerous different insurance products in individual EU countries, the expanded Task Force continued its analysis of PRIPs. The final opinion of the CEIOPS will then be presented at meetings of the 3L3 Task Force. As regards the review of the IMD on the basis of the EC's Call for Advice, the working group expects to be cooperating intensively with the European Commission. The EC wishes to submit the draft IMD review for approval towards the end of 2010. The main objective of the IMD review is to remove shortcomings that are causing problems in the application of the Directive, as well as to increase customer protection. Other priority issues addressed at the working group's meetings included cross-border cooperation, the handling of complaints, the interpretation of certain IMD provisions related to the handling of specific situations, and the powers of supervisory authorities in regard to consumer protection. The working group held 7 meetings in 2009.
- *CEIOPS Review Panel* – In 2009, Národná banka Slovenska was actively involved in the work of the Review Panel (RP). The first RP exercise involved mapping the current state of the implementation into national laws of the General Protocol (relating to the collaboration of the insurance supervisory authorities of the EU Member States), the Budapest Protocol and the Luxembourg Protocol. Work also began on mapping differences in the way that the protocols are interpreted at the national level. In the next stage, the mapping of national differences will continue, while at the same time the RP will focus on establishing procedures and rules of interpretation that allow the protocols to be implemented in full in each Member State.
- *CEIOPS HR network* – This group has been established to support cooperation related to exchanges and working meetings of staff of supervisory authorities across the European Economic Area.
- *CEIOPS Insurance Groups Supervision Committee* – In 2009, this working group dealt mainly with the Solvency II project in regard to insurance groups. It discussed and prepared draft advices on the text of Level 2 implementing measures. The group participated in the preparation of Quantitative Impact Study 5 as well as in the planning and hosting of CEIOPS training seminars. In addition to work on the Solvency II project, the group's activities in 2009 focused on the efficiency of meetings of the coordination committees (they comprise representatives of supervisory authorities, and their purpose is to exercise supervision over individual insurance groups).
- *CEIOPS IT Task Force* – The task of this group was to examine the scope for harmonising the exchange of information between supervisory authorities, as required

by Solvency II. Key aspects in this regard are the format in which both quantitative and qualitative data are exchanged, and the organisation of the whole exchange process, including the proposal for a central database. The result of this work was a document describing individual variants of the technical solution, including their advantages and drawbacks.

### **6.2.3.2 Working committees and groups of the EU Council, OECD and IAIS**

- *EU Council – Working Party on Financial Services (Solvency II)* – In the second half of 2009, this working party began to prepare implementing measures for the Solvency II Directive. The first discussions were dominated by the following issues: the liquidity premium; the classification of own funds; the measurement of assets and liabilities; reporting; disclosure; operational risk calibration, the Minimum Capital Requirement (MCR) calculated on a quarterly basis; special purpose vehicles (SPVs); the approval of internal models; capital increases; remuneration; and group solvency. The working party also discussed the transposition of Solvency II, mostly in regard to the possibility of its earlier transposition and to the commencement of reporting under the Solvency II regime. Národná banka Slovenska and the Ministry of Finance of the Slovak Republic were represented at the group's expert meetings.
- *OECD Insurance and Private Pension Committee* – The purpose of this committee is to promote effective, open and market-oriented insurance systems and private pension schemes based on transparency. The committee seeks to improve information provision and education in the field of insurance and private pensions and to enhance the financial management of catastrophic risks.
- *OECD Working Party of Governmental Experts on Insurance* – This ad hoc working group was established to analyse and assess the regulatory environment in member countries and supervision techniques in regard to solvency.
- *OECD Task Force Insurance Statistics* – The task of this working group is to enhance the timeliness of data collection and the relevancy of published statistics.

Národná banka Slovenska is also a member of the **International Association of Insurance Supervisors (IAIS)**

- *IAIS Insurance Laws, Regulations, Practices and Standards Subcommittee* – The focus of this group is insurance law, prudential regulation, and the processing of the insurance laws database. In 2009, the group held one meeting.

### **6.2.4 Pension savings sector**

*International Organisation of Pension Supervisors (IOPS)* – The IOPS meetings in 2009 centred mainly on the production of a Toolkit for Risk-based Supervision of pension fund management companies. There were also discussions on the methodology for the self-assessment of supervisory authorities against the IOPS Principles of Private Pension Supervision. In addition, the IOPS meetings evaluated and analysed current developments in the impact of the financial crisis on the financial services sector.

- *CEIOPS Occupational Pensions Committee (OPC)* – The main role of this committee is to identify barriers to the cross-border activities of occupational pension providers,

to cooperate with the European Commission in monitoring the implementation of the IORP Directive<sup>1</sup> and preparing a review of the Directive, and to produce reports on matters of particular importance for its members. In 2009, cross-border activities in this sector continued to be regularly monitored and assessed, and the review of the Budapest Protocol on collaboration between supervisory authorities was completed. Apart from its participation in the revision of this Protocol, the Committee also produced a report on risk management in the Pillar 3 pension system in each EU Member State. The report was approved by the CEIOPS Members' Meeting held on 30 October 2009, and it is published on the CEIOPS website as "Report on risk management rules applicable to IORPs".<sup>2</sup> The committee issued an opinion on the inclusion of pension schemes under the new legislative regime for Packaged Retail Investment Products, which, at the EU level, is supposed to regulate the disclosure requirement vis-à-vis the customers of pension fund management companies and how these companies sell their products. Národná banka Slovenska participated in the official CEIOPS response to the European Commission in regard to this initiative.

- *OECD Working Party on Private Pensions (WPPP)* – The WPPP comprehensively covers the issue of defined benefit pension systems and contribution defined pension systems in OECD countries. In 2009, the WPPP focused mainly on the repercussions of the financial crisis on pension saving. It also prepared and approved recommendations on the internal structure of pension fund management companies and their regulation.
- *OECD Task Force on Pension Statistics* – This group is concerned with the collection and evaluation of statistical data for various purposes relating to pension schemes in OECD countries.

## 6.3 Cooperation with sectoral associations and other institutions

*Interdepartmental Integrated Expert Group* (based at the Ministry of Interior of the Slovak Republic and organised by the Financial Intelligence Unit) – This group focuses on the permanent monitoring and implementation of measures to prevent money laundering and terrorist financing in Member States (on the basis of the FATF's 40+9 recommendations and the EU's Third Money Laundering Directive) and on current issues and trends in this area across all the Slovak ministries concerned. The group, comprising representatives of these ministries, meets at least three times a year.

### 6.3.1 Banks and investment firms

In 2009, Národná banka Slovenska cooperated with the Slovak Banking Association in the drafting of several legal regulations, and in particular the drafting of NBS Decree No. 5/2009 of 24 November 2009 amending NBS Decree No. 18/2008 on the liquidity of banks and branches of foreign banks and the process of liquidity risk management of banks and branches of foreign banks, and on the amendment of NBS Decree No. 11/2007 concerning the submission of statements, reports and other disclosures by banks, branches of foreign banks, investment firms, and branches of foreign investment firms for supervision and statistical

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<sup>1</sup> Directive 2003/41/EC of the European Parliament and of the Council on the activities and supervision of institutions for occupational retirement provision.

<sup>2</sup> <http://www.ceiops.eu/media/files/publications/reports/CEIOPS-Occupational-Pensions-Risk-Management-by-IORPs-report.pdf>.

purposes. This marked the culmination of efforts of the Slovak Banking Sector, on one hand, and Národná banka Slovenska, on the other hand, to issue a revising regulation concerning the liquidity risk management of banks and branches of foreign banks. These efforts had begun back in 2008, and in the case of the Slovak Banking Association they mainly involved its participation in the setting of the liquid asset ratio parameters contained in the Decree. This included producing analyses, calculations and proposals for the parameter levels.

Both the Slovak Banking Association and the Slovak Association of Securities Dealers (AOCP) cooperated in the drafting of NBS Decree No 6/2009 of 24 November 2009 on the submission of statements, reports and other disclosures by banks, branches of foreign banks, investment firms and branches of foreign investment firms for supervision purposes, and amending NBS Decree No. 26/2008 on the submission of statements by banks, branches of foreign banks, investment firms and branches of foreign investment firms for statistical purposes. As a result of this cooperation, the duty to make submissions in writing was repealed in respect of the large majority of statements, reports, and other disclosures, which may now be submitted exclusively through the electronic collection system. Statements and reports as at the balance sheet date of the respective calendar year must still be submitted in writing.

#### ***6.3.1.1 Payment institutions and electronic money institutions***

As part of the drafting process for Act No. 492/2009 Coll. on payment services, Národná banka Slovenska established a working group, which although including many staff from different specialist internal departments, largely comprised representatives of the Ministry of Finance of the Slovak Republic and the Slovak Banking Association. The working group meetings followed an intensive schedule and dealt with all issues relating to the preparation, drafting and approval of the Act.

#### **6.3.2 Capital market**

In 2009, as part of its regulatory activities in the collective investment and capital market sector, Národná banka Slovenska cooperated closely with the Ministry of Finance of the Slovak Republic (MF SR). On 24 September 2009 the European Commission put forward a proposal for a Directive of the European Parliament and of the Council amending Directive 2003/71/ES (on the prospectus to be published when securities are offered to the public or admitted to trading) and Directive 2004/109/EC (on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market). In this regard, NBS provided MF SR with specialist support in its preparation of comments and positions for meetings of the EU Council's Working Party on Financial Services.

Cooperation with MF SR in regard to the collective investment sector continued in 2009, especially in relation to the legislative process for the adoption of Directive 2009/65/EC (UCITS IV), which was published in the Official Journal of the European Union on 17 November 2009. As a result of the European Commission submitting a proposal for a new Directive on Alternative Investment Fund Managers (the AIFM Directive) in April 2009, the focus of cooperation regarding the regulation of the collective investment sector shifted in the second half of the year, as Národná banka Slovenska gave MF SR specialist support in regard to the AFIM Directive's legislative process at EU institutions.

During 2009, several meetings were held on various issues of common interest such as, for example, the duty to comply with capital adequacy requirements (including such requirements under the Securities Act) as it applies to management companies authorised to perform other activities; the regulation of the acquisition of a qualifying participation in a management company or other financial company made in connection with a change in the company's ownership structure arising from the Government's anti-crisis measures; or the taxation of unit certificates, and others.

So as to ensure the flexible transmission of required information and initiatives between Národná banka Slovenska and the collective investment sector, represented by the Slovak Association of Asset Management Companies (SASS), Národná banka Slovenska continued to hold meetings with SASS representatives periodically, every two months. The meetings were an opportunity to exchange information about the current state of the sector and about key matters of interest to both parties (e.g. the global financial crisis and specifically its impact on money market funds; the implementation of the UCITS IV Directive into Slovak law and its potential impact on the local collective investment sector; the recodification of the Collective Investment Act; forthcoming NBS Decrees; the duty to comply with capital adequacy requirements (including such requirements under the Securities Act) as it applies to management companies authorised to perform other activities under Section 3(3) of the Collective Investment Act; and capital adequacy reporting).

In addition to the regular meetings, NBS had further, thematic meetings with representatives of most management companies (SASS members) and other interested parties. For example, the meeting held in March 2009, concerning the preparation of a new NBS Decree concerning the methods of establishing the value of assets in a mutual fund, was attended by representatives from both SASS and the Association of Pension Fund Management Companies (ADSS). The meeting in July 2009 addressed certain current issues related to the submission of reports to the NBS, especially "reports submitted by a securities dealer"; in line with its conclusions, Národná banka Slovenska produced and published (in the APS STATUS DTF information system) separate methodological information for the completion of the "Report on requests for own funds – Bd (PVZ) 20-12 / Bdk (PVZ) 56-02" by management companies that perform activities under Article 3(3) of the Collective Investment Act.

In December 2009, a special presentation was given to SASS regarding Act No. 186/2009 Coll. on Financial Intermediation and Financial Counselling and on amendments and supplements to certain laws, and regarding its impact on the collective investment sector.

As regards cooperation with the Slovak Association of Securities Dealers (AOCP), it included, inter alia, NBS staff sitting on the examination committee for AOCP's professional examination of investment services intermediaries and contributing to the setting of the exam.

Národná banka Slovenska cooperated with the Slovak Banking Association in the preparation of NBS Decrees that regulate depositary activities (e.g. on the valuation of mutual fund assets, and on the submission of statements by management companies and by depositaries of mutual funds).

### **6.3.3 Insurance sector**

In 2009, Národná banka Slovenska's regulatory activities in regard to the insurance sector were conducted in close cooperation with the Ministry of Finance of the Slovak Republic (MF SR). This cooperation centred on amendments to the Insurance Act

implemented through Act No. 186/2009 Coll. and Act No. 276/2009 Coll. The central bank together with MF SR also participated in meetings of the EU Council's Working Party on Financial Services (Solvency II), where they put forward comments in line with Slovakia's position on the Solvency II Directive and on implementing measures for the Solvency II Directive.

One of the key areas in which NBS cooperated with sectoral associations in 2009 was the adoption of statutory instruments and methodological guidelines binding on the insurance sector.

In 2009, NBS drafted a Decree on a template form regarding the terms and conditions that a policyholder must be informed about before entering into an insurance contract; a Decree laying down details about the internal control system and activities of the internal audit unit of insurance companies, branches of foreign insurance companies, reinsurance companies and branches of foreign reinsurance companies; and a Methodological Guideline of the Financial Market Supervision Unit (ÚDFT) concerning the average level of costs for financial intermediation. In this regard, NBS cooperated with individual sections of the Slovak Association of Insurance Companies (SLASPO).

For the drafting of a ÚDFT Methodological Guideline concerning the levy on insurance premiums under Section 33 of the Insurance Act, Národná banka Slovenska consulted the Ministry of Finance of the Slovak Republic, the Ministry of Interior of the Slovak Republic, and the Slovak Bureau of Insurers (SKP). The purpose of this measure is to give insurance companies guidance on determining the base for the 8% levy on premiums for motor vehicle third-party liability insurance, on the procedure in the case of underpayment or overpayment, and on the method of notifying NBS and MF SR of the payment of the levy.

As regards the updating of questions in the professional examination for insurance intermediaries (under Section 17(4) and (9) of Act No. 340/2005 Coll. on insurance mediation and reinsurance mediation and on amendments to certain laws as amended), Národná banka Slovenska cooperated with SLASPO, the Slovak Association of Insurance Intermediaries, and the Slovak Risk Management Association.

#### **6.3.4 Pension savings sector**

In performing its regulatory role in the pension sector in 2009, Národná banka Slovenska cooperated with the Ministry of Labour, Social Affairs and Family in the preparation of amendments to the Retirement Pension Saving Act and the Supplementary Pension Saving Act. In this regard, NBS also exchanged information with the relevant pension associations.

### **6.4 Sectoral surveys**

On 13 December 2004, the European Council adopted *Council Directive 2004/113/EC implementing the principle of equal treatment between men and women in the access to and supply of goods and services*, in order to lay down a framework for the fight against discrimination on grounds of gender in the area of access to and supply of goods and services. Article 5 of the Directive stipulates that *in all new contracts concluded after 21 December 2007 at the latest, the use of gender as a factor in the calculation of premiums and benefits for the purposes of insurance and related financial services shall not result in differences in individuals' premiums and benefits*. As provided for by the Directive, Slovakia opted not to

implement this provision and permitted proportionate differences in individuals' premiums and benefits where the use of gender is a determining factor in the assessment of risk based on relevant and accurate actuarial and statistical data. Having duly notified the European Commission of this fact, Slovakia was required under Article 5(2) of the Directive to ensure that accurate data relevant to the use of gender as a determining actuarial factor are compiled, published and regularly updated. Under Article 16 of the Directive, all available information concerning the Directive's application had to be communicated to the European Commission by no later than 21 December 2009 and every five years thereafter. In 2009, Národná banka Slovenska therefore began for the first time to collect from insurance companies statistical data regarding insured persons, broken down according to gender, age, and thirteen insurable risks. The findings were then published on the NBS website.

Data on insurance claims caused by catastrophes were also collected from insurance companies in 2009. The data were used to calibrate catastrophic risk models in calculations pursuant to the Solvency II Directive and CEIOPS advice to the European Commission.

From 4 to 9 February 2009, a survey was carried out on the extent to which financial instruments had been reclassified in line with Commission Regulation (EC) No 1004/2008 of 15 October 2008 amending Regulation (EC) No 1725/2003 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002. A total of 14 insurance companies took part in the survey, and one of them was found to have carried out such a reclassification, in an estimated amount of €54,135,000. Another object of the survey was to establish the extent of the application of the "Educational guidance on the application of fair value measurement when markets become inactive", published by the International Accounting Standards Board in October 2008. Only five insurance companies stated that they were following this guidance.

In the collective investment sector, a broad survey was conducted on the procedures and practices of depositary activities for mutual funds. The survey was done in connection with the planned recodification of the Collective Investment Act and with the preparation of a Level 2 Regulation, and for the needs of the CESR.

## **6.5 Analytical activities**

The Financial Market Supervision Unit conducts analytical activities at different levels of its organisational structure. The major part of this work is done at the Regulation and Risk Management Methodology (RRMM) Department. The macroprudential character of these activities is in line with the newly established structure of financial market supervision in the European Union, which is represented by the European Systemic Risk Board (ESRB). The analyses focus largely on the identification of medium and long-term risks posed to the stability of the financial sector. The identification of medium and long-term risks within the scope of macroprudential analyses is based on an in-depth knowledge of the financial sector, acquired through monitoring and analysing the trends and risks in financial markets and the real economy. With such knowledge of these areas and the links between them, risks to the stability of the Slovak financial sector can be identified in due time.

Another task of this analytical work is to ensure closer links between the analyses and regulatory activities. Regulation should thus be well placed to react to potential risks in the financial sector well before they materialise.

Analytical activities include activities related to the regular monitoring of trends in individual financial institutions and in the financial sector as a whole, and the monitoring of developments in financial markets and the real economy. The purpose of monitoring is to identify all the relevant trends that may affect the stability of the financial sector to a significant extent.

The main output of the RRMM Department's analytical activities is the *Analysis of the Slovak Financial Sector*, which is prepared on a biannual basis (published in April and September). The analysis provides a comprehensive and in-depth evaluation of the capability of individual financial entities and the sector as a whole to cope with the risks faced. This report is submitted to the NBS Bank Board and an abridged version is published<sup>3</sup>. It also serves as an important basis for the *Financial Stability Report*.

In 2009, the Supervision Unit started to publish a *Macprudential Analysis of the Banking Sector* on a biannual basis (in May and November). Its purpose is to provide up-to-date information on trends and risks in regard to the stability of the banking sector.

Another biannual analysis is the *Report on the State and Development of the Slovak Financial Market*, which is submitted to both the Government and Parliament of the Slovak Republic in accordance with the Financial Market Supervision Act.

Based on Resolution No. 808 of the Slovak Government of 6 November 2008 on draft government measures for overcoming the effects of the global financial crisis, the Supervision Unit produces a monthly *Report on Developments in New Retail Lending and Lending Rates*, which is submitted to the Government for discussion. This report has a statistical character.

Another analytical material submitted to the Slovak Government, on a quarterly basis, is devoted to the sources of credit for business entities. The purpose of this material is to provide a survey of the current trends in lending to enterprises.

For the needs of the Government's Price Council, an analysis of banks' interest rate differentials was carried out. The analysis contained a comparison of interest rate differentials in Slovakia and abroad.

Analytical activities in 2009 were greatly influenced by the ongoing financial and economic crisis. During 2009, when the financial crisis gradually changed into an economic crisis, the Supervision Unit's analytical activities focused more on evaluating the negative trends in the real economy and their impact on the banking sector's stability.

Increased attention was paid to stress testing, the task of which is to quantify the financial sector's sensitivity to negative trends in financial markets and the real economy. Within the scope of stress testing, several econometric models were used, including, for example, a multiequational dynamic model for the transmission of changes in the central bank's base rate to other market interest rates, and a model of changes in corporate and household loan default rates according to the macroeconomic variables. The risk assessment process included the implementation of a new method of credit risk monitoring, which uses specific data on individual loans and their collateral from the Register of Bank Loans and Guarantees (RBUZ).

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<sup>3</sup> <http://www.nbs.sk/en/publications-issued-by-the-nbs/nbs-publications/analysis-of-the-slovak-financial-sector>.

Special attention was paid to improving the models and the risk assessment system. Market risks were assessed using a new VaR model. This model is based on the modelling of variable volatility and correlations using a multidimensional GARCH model, which enables a more precise risk calculation, mainly at times of increased financial market turbulences. Using the proposed method of VaR calculation, it is also possible to identify the indirect foreign exchange and interest rate risks to which the individual financial institutions are exposed through investments in mutual fund shares.

As part of the analytical activities, several meetings were held with banks during the course of 2009. These included discussions focusing on banks' credit risk exposures, changes in banks' lending standards and lending policies.

Analytical activities also include data processing and the preparation of analytical materials. In this regard, analytical materials are regularly prepared for the NBS management, through presentations, reports and/or comment proceedings. Much of the processed data is regularly published on the NBS website – quarterly analytical data for the financial sector, monthly data on house purchase loans, reports and analytical material on supply and demand developments in the lending market.

Analytical materials and opinions are regularly produced for international institutions, such as the IMF, ECB, OECD, World Bank, credit rating agencies, etc. This cooperation includes the periodical processing and delivery of data for analytical purposes. During 2009, several meetings were held with the representatives of international institutions to discuss current trends and risks in the Slovak financial sector. The outputs of analytical activities were also discussed at the regular meetings with the main rating agencies.

The expansion of analytical activities highlights the needs for adequate input data. In 2009, several new sources of data started to be used for analytical purposes, with a focus on the use of individual financial data from the corporate sector. These data were subsequently analysed, together with data from the Register of Bank Loans and Guarantees. Data on households from the register of retail bank loans also started to be used for analytical purposes.

Analytical activities were quite intensively used also for the preparation of new regulations, particularly for analysing the potential impacts of legislative changes. Examples include the impact assessment of an amendment to Act No. 43/2004 Coll. and the impact assessment of a change in the level of mortgage loan coverage by mortgage bonds.

For assessing changes in the regulation of retirement pension saving, a model was created to simulate the retirement pension sector. The model is based on a dynamic system that takes into account demographic developments, the age and income structure of savers, scenarios of savers' decisions to enter the Pillar II system, scenarios of returns on assets invested in funds, scenarios of the costs of pension management companies, and the regulatory conditions (mainly the settings of payments to savers).

## **6.6 Information systems**

During the second half of 2009, the *Register of Financial Agents and Financial Advisers* (REGFAP) was established. This information system, including a new register of deposits received and loans provided, replaces all registers and lists of financial intermediaries (insurance and reinsurance intermediaries, investment services intermediaries, and supplementary pension saving intermediaries) kept by NBS until the end of 2009. The

REGFAP is an Internet application available to the public at <http://regfap.nbs.sk>. Following the conversion of data from the exiting registers and lists, the system was put into operation on 1 January 2010.

In 2009, the central reference database of financial instruments was incorporated into the *TREM* system, which enables national regulators to exchange information about transactions in instruments accepted for trading on regulated markets. NBS implemented a software application linking the APS Status DFT to the central database in Paris. This application processes reports submitted by the BSSE to NBS on a daily basis, transforms them into a convertible format and sends them to the central server. The application was successfully tested in cooperation with experts from the CESR and put into operation according to schedule.

*APS MIM* (analytical processing of data from banks) was extended to process data collected from insurers. Also extended were the functions of the *RUZAN* system, which forms an analytical superstructure for the Register of Bank Loans and Guarantees and enables a deeper analysis of corporate credit risk. Work also continued on the *central register of information* published by securities issuers.

## **6.7 Organisational activities**

### **6.7.1 Banks and investment firms**

In January 2009, the Supervision Unit of Národná banka Slovenska organised a working meeting for the representatives of BSCEE member countries. The meeting was devoted to the impact of the financial crisis on the financial and banking sectors of BSCEE countries, and to the current problems faced by their supervisory authorities.

On 2–4 September 2009, the Supervision Unit of NBS, together with the Financial Stability Institute (FSI) and BSCEE, organised a regional seminar on the Implementation of Pillar 2 – on questions relating to its adoption in the individual member countries.

On 30 October 2009, presentations were given by the representatives of the V6 member countries' regulatory authorities. The subjects of these presentations were changes in the regulations governing liquidity, changes in the Deposit Protection Act (the Deposit Protection Fund increased the volume of protected deposits at banks and branches of foreign banks from 90% to 100% for natural persons), changes in the Banking Act, and the presentation of the Anti-Crisis Act.

On 6 November 2009, the NBS management also held a meeting with the representatives of banks and investment firms. The topics discussed at these meetings were the prepared legislative changes in the regulation of banks and investment firms, the macroeconomic situation in Slovakia and abroad, financial market developments in Slovakia and abroad, developments in the Slovak banking sector, credit risks faced by non-financial corporations and households, and liquidity risk management. The presentations also covered the overall results of the banking sector in meeting capital adequacy requirements in the first half of 2009 – both before and after taking into account the results of macro stress testing (under two scenarios – moderate and serious – of plausible credit risk and market risk developments).

\* \* \*





## 7. Annexes

Annex 1

### **List of laws governing the supervision of the financial market by NBS:**

- Act No. 747/2004 Coll. on financial market supervision and on amendments to certain laws, as amended.
- Act No. 483/2001 Coll. on banks and on amendments to certain laws, as amended.
- Act of the Slovak National Council No. 310/1992 Coll. on home savings, as amended.
- Act No. 566/2001 Coll. on securities and investment services and on amendments to certain laws, as amended.
- Act No. 530/1990 Coll. on bonds as amended.
- Act No. 429/2002 Coll. on the stock exchange, as amended.
- Act No. 594/2003 Coll. on collective investment and on amendments to certain laws, as amended.
- Act No. 8/2008 Coll. on insurance and on amendments to certain laws, as amended.
- Act No. 340/2005 Coll. on insurance and reinsurance mediation and on amendments to certain laws.
- Act No. 381/2001 Coll. on compulsory contractual third-party liability motor vehicle insurance and on amendments to certain laws, as amended.
- Act No. 43/2004 Coll. on retirement pension saving and on amendments to certain laws, as amended.
- Act No. 650/2004 Coll. on supplementary pension saving and on amendments to certain laws, as amended.
- Act No. 266/2005 Coll. on consumer protection in connection with the distance marketing of financial services and on amendments to certain laws.
- Section 22 of Act No. 118/1996 Coll. of the National Council of the Slovak Republic on the protection of bank deposits, as amended.

**List of entities and groups of entities supervised by NBS within the scope of financial market supervision:**

- banks and branches of foreign banks;
- investment firms and branches of foreign investment firms;
- intermediaries of investment services;
- stock exchanges;
- central securities depositories;
- management companies and branches of foreign management companies;
- mutual funds;
- foreign collective investment undertakings;
- insurance companies and branches of foreign insurance companies;
- reinsurance companies and branches of foreign reinsurance companies;
- insurance intermediaries;
- reinsurance intermediaries;
- pension fund management companies;
- pension funds;
- supplementary pension asset management companies;
- supplementary pension funds;
- supplementary pension intermediaries;
- electronic money institutions and branches of foreign electronic money institutions;
- The Deposit Protection Fund;
- The Investment Guarantee Fund;
- The Slovak Bureau of Insurers;
- consolidated groups;
- financial holding institutions (only regulated entities);
- financial conglomerates;
- other entities, property associations with a specific purpose, and groups of persons and property associations with a specific purpose charged with obligations under separate laws in the area of banking, the capital market, insurance or pension insurance.

**Organisational chart of the Financial Market Supervision Unit of NBS in 2009:**

**Deputy Governor**

**Financial Market Supervision Unit**

**Licensing and Enforcement Department**

Licensing Section

Cross-Border Cooperation Section

Customer Protection Section

Enforcement Section

**Regulation and Risk Management Methodology Department**

Collective Investment Regulation Section

Market Regulation Section

Insurance Regulation Section

Pension Savings Regulation Section

Regulation of Banks and Investment Firms Section

Financial Market Risk Analysis Section

Regulatory Risk Measurement Models Section

**Supervisory Department**

Quantitative Analyses Section

Banking Groups Supervision Section 1

Banking Groups Supervision Section 2

Insurance Groups Supervision Section

Capital Market Entities Supervision Section

Insurance & Reinsurance Mediation and Foreign Exchange Supervision Section

**List of abbreviations:**

<i>Abbreviation</i>	<i>Full title / meaning</i>
ADSS	Asociácia dôchodkových správcovských spoločností /Association of Pension Management Companies
AIFM	Alternative Investment Fund Managers
AMLTF	Anti Money Laundering Task Force
AMA	Advanced Measurement Approach (for operational risk measurement)
AOCP	Asociácia obchodníkov s cennými papiermi /Assoc. of Investment Firms
APS MIM	Application system with a metainformation module
APS RBUZ	Application system for the Register of Bank Loans and Guarantees
APS STATUS	STATUS application system
APS STATUS DFT	STATUS application system for financial market supervision
BAMOSZ	Association of Hungarian Investment Funds and Asset Management Companies
Basel II	Internal Convergence of Capital Measurement and Capital Standards (a revised framework)
BSSE	Bratislava Stock Exchange
BSC	Banking Supervision Committee
BSCEE	Banking Supervision Committee for Central and Eastern Europe
CBFA	the supervisory authority of Belgium
CCF	credit conversion factor
CDCP	Centrálny depozitár cenných papierov SR, a.s. / the Slovak central securities depository
CEBS	Committee of European Banking Supervisors
CEIOPS	Committee of European Insurance and Occupational Pension Supervisors
CEIOPS - IMEG	CEIOPS Internal Model Expert Group
CESR	Committee of European Securities Regulators
CESR - Fin	Permanent operational group with the role of coordinating the work of CESR members in the area of endorsement and enforcement of financial reporting standards in Europe
CESR – IMEG	CESR Expert Group on Investment Management
CESR - Pol	Permanent operational group within CESR, composed of senior officials of CESR members that are responsible for surveillance and the exchange of information
COREP	Common solvency ratio reporting framework for credit institutions and investment firms under the future EU capital requirements regime
CP	cenné papiere / securities
CRD	Capital Requirements Directive
DDS	supplementary pension asset management company
DSS	pension fund management company
ECB	European Central Bank
ECOFIN	Economic and Financial Affairs Council of the EU
EFC	Economic and Financial Committee
EFRAG	European Financial Reporting Advisory Group
EGFI	Expert Group on Financial Information

EEA	European Economic Area
EC	European Commission
ESCB	European System of Central Banks
ESMA	European Securities and Markets Authority
ESRB	European Systemic Risk Board
EU	European Union
EUR	euro
FINAN	monthly summary of financial indicators
FINREP	Financial Reporting
FSI	Financial Stability Institute
GdC	Groupe de Contact
HFSA	Hungarian Financial Supervisory Authority
IAIS	International Association of Insurance Supervisors
IAS/IFRS	international accounting standards
IASB	International Accounting Standards Board
ICAAP	internal capital adequacy assessment process
IMD	Insurance Mediation Directive
IOPS	International Organisation of Pension Supervisors
IORP	Institutions for Occupational Retirement Provisions
IOSCO	International Organisation of Securities Commissions
IRB	internal ratings-based (approach)
IRDC	central database of financial instruments
IS	information system
IT	information technology
CONCENTRATION	sectoral concentration of loans and deposits
LGD	loss given default
MAD	Market Abuse Directive
MCR	minimum capital requirement
MF SR	Ministry of Finance of the Slovak Republic
MiFID	Directive 2004/39/EC of the European Parliament and of the Council on markets for financial instruments
IMF	International Monetary Fund
MONEYVAL	Committee of Experts on the Evaluation of Anti-Money Laundering Measures
MPSVR	Ministry of Labour, Social Affairs and Family of the Slovak Republic
MV SR	Ministry of the Interior of the Slovak Republic
NBS	Národná banka Slovenska
NOVI-O	Network on validation issues - operational risk
ODO	Supervisory Department of NBS
OECD	Organisation for Economic Cooperation and Development
OPC	Occupational Pensions Committee
ORM	Regulation and Risk Management Methodology Department
ORSA	own risk and solvency assessment
OTC	over-the-counter
PD	probability of default
P2CN	Pillar 2 Convergence Network
PRIP	Packaged Retail Investment Product
QIS	quantitative impact study
REGFAP	Register of Financial Agents and Financial Advisers

RP	Review Panel
SASS	Slovak Association of Asset Management Companies
SBA	Slovak Banking Association
SGOR	Sub Group on Operational Risk
SLASPO	Slovak Association of Insurance Companies
SKK	Slovak koruna
SKP	Slovak Bureau of Insurers
SPV	special purpose vehicles
Solvency II	Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of insurance and reinsurance
SON	GdC subgroup on Operational Networking
SR	Slovak Republic
SREP	supervision assessment process
TD	Transparency Directive
TFCM	Task Force on Credit Management
TREM	Transaction Reporting Exchange Mechanism
UCITS	Undertakings for Collective Investment in Transferable Securities
ÚDFT	Financial Market Supervision Unit
VaR	Value at Risk
DEPOSITS/LOANS	classification of deposits and loans by type, maturity, economic sector and geographical origin
WGBD	Working Group on Developments in Banking
WGCR	Working Group on Credit Register
WGMA	Working Group on Macroprudential Analysis
WPPP	Working Party on Private Pensions
XBRL	eXtensible Business Reporting Language
CIA	Act No. 594/2003 Coll. on collective investment as amended