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**DECREE**  
**of the**  
**National Bank of Slovakia**  
**of 21 August 2007**

**on disclosures by securities dealers and branches of foreign securities dealers  
and amending Decree no. 1/2007 of the National Bank of Slovakia on  
disclosures by banks and branches of foreign banks**

In accordance with Article 74b(4) of Act no. 566/2001 Coll. on securities and investment services and amendments to certain laws (the Securities Act) as amended by Act no. 644/2006 Coll. (hereinafter "the Act"), and with Article 37(18)(c) to (g) of Act no. 483/2001 Coll. on banks and amendments to certain laws as amended, the National Bank of Slovakia stipulates as follows:

**Section I**

**Article 1**

(1) The following information shall be disclosed regarding the securities dealer or branch of a foreign securities dealer, its activities, and remedial measures or penalties imposed thereon:

- a) the organization chart, the total number of registered employees, and, separately, the number of registered managerial employees;
- b) the date of entry in the Commercial Register, the date of issuance of its investment services licence, and the date from which it actually began performing activities under the investment services licence;
- c) a list of the activities performed under its investment services licence;
- d) a list of the licensed activities not being performed thereunder;
- e) a list of the activities the performance of which has been restricted, suspended or cancelled by a competent authority;
- f) a citation of the statement of a valid decision under which a remedial measure has been imposed<sup>1)</sup> during a calendar half-year;
- g) a citation of the statement of a valid decision under which a penalty has been imposed<sup>2)</sup> during a calendar half-year.

(2) The following information shall be disclosed regarding the financial indicators of the securities dealer or the branch of a foreign securities dealer:

a) in the case of a securities dealer or foreign securities dealer which prepares financial statements in accordance with a separate regulation<sup>3)</sup>:

1. data from the balance sheet published in accordance with the requirements of International Financial Reporting Standard No. 7<sup>3)</sup>;

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<sup>1)</sup> For example, Article 144(1)(a) to (d) and (f) to (l) of Act no. 566/2001 Coll. on securities and investment services and amendments to certain laws (the Securities Act); Article 22(1)(a) and (b) of Act no. 530/1990 Coll. on bonds as amended by Act no. 430/2002 Coll.; Article 106(1)(a) to (d) and (f) to (p) of Act no. 594/2003 Coll. on collective investment and amendments to certain laws; Article 60(1)(a) to (d), (f) and (g) of Act no. 429/2002 Coll. on the stock exchange.

<sup>2)</sup> For example, Article 144(1)(e) of Act no. 566/2001 Coll.; Article 22(1)(c) and (2) of Act no. 530/1990 Coll. as amended by Act no. 430/2002 Coll.; Article 106(1)(e) and (5) of Act no. 594/2003 Coll.; Article 60(1)(e) of Act no. 429/2002 Coll.; Article 38 of Act no. 747/2004 Coll. on financial market supervision and amendments to certain laws.

<sup>3)</sup> Commission Regulation (EC) No 1725/2003 of 29 September 2003 adopting certain international account standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council (OJ Special Edition, Chapter 13 Volume 32) as amended.

2. data from the income statement published in accordance with the requirements of International Financial Reporting Standard No. 7<sup>3)</sup>;
3. other data published in accordance with the requirements of International Financial Reporting Standard No. 7<sup>3)</sup>;

b) in the case of a securities dealer or branch of a foreign securities dealer which does not prepare financial statements in accordance with a separate regulation;<sup>3)</sup>

1. data from the balance sheet of assets and liabilities;<sup>4)</sup>
2. data from the income statement.<sup>4)</sup>

(3) The following information shall be disclosed regarding the securities dealer's ten largest shareholders owning not less than 5% of the securities dealer's share capital and regarding the size of their interests in the share capital and voting rights of the securities dealer, where the shareholder is:

a) a natural person:

1. forename and surname,
2. date of birth,
3. interest in the share capital of the securities dealer,
4. interest in the voting rights of the securities dealer,

b) an unincorporated business:

1. business name,
2. identification number,
3. place of business,
4. registration number in an official register or other official record,
5. main business,
6. interest in the share capital of the securities dealer,
7. interest in the voting rights of the securities dealer,

c) a legal person not mentioned under (d) to (f):

1. name,
2. legal form and registered office,
3. identification number,
4. main business,
5. interest in the share capital of the securities dealer,
6. interest in the voting rights of the securities dealer,

d) city/town, municipality or regional self-government:

1. name,
2. interest in the capital of the securities dealer,
3. interest in the voting rights in the securities dealer,

e) the National Property Fund of the Slovak Republic:

1. interest in the capital of the securities dealer,
2. interest in the voting rights of the securities dealer,

f) a country:

1. name and registered office of the central government bodies that exercise the shareholder's rights,
2. interest in the share capital of the securities dealer,
3. interest in the voting rights of the securities dealer.

(4) The following information shall be disclosed regarding the securities dealer's shareholders that are not mentioned in paragraph (3):

a) the number of such shareholders;

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<sup>4)</sup> Decree no. 2/2007 of the National Bank of Slovakia of 16 January 2007 on the submission of statements, reports and other disclosures by banks, branches of foreign banks, securities dealers and branches of foreign securities dealers for supervision and statistical purposes (notification no. 42/2007 Coll.).

- b) their interest in the share capital of the securities dealer;
- c) their interest in the voting rights of the securities dealer.

(5) The following information shall be disclosed regarding the structure of the consolidated securities dealer group of which the securities dealer is a member, in regard to the interrelations and composition of the group:

- a) the name of the entity that has the position of a parent undertaking towards the securities dealer, the registered office of this entity, its main business, and the name of the country in which it predominantly operates, and for each member of the consolidated group, its name, registered office, main business, and the name of the country in which it predominantly operates;
- b) an organization chart of the consolidated group;
- c) the securities dealer's interest in the capital and voting rights of each member of the consolidated group which it controls.

(6) Regarding the financial indicators of the consolidated group of which the securities dealer is a member, there shall be disclosed data from the consolidated balance sheet, data from the consolidated income statement and other data published in accordance with the requirements of International Financial Reporting Standard No. 7.<sup>3)</sup>

(7) The securities dealer's risks and its risk management objectives and policies shall be disclosed for each separate category of risk, and these disclosures shall include:

- a) the strategy and processes to manage the risks;
- b) the organization of the relevant risk management;
- c) the scope and nature of systems for identifying, measuring, monitoring and mitigating risks;
- d) the scope and nature of risk reporting systems.

(8) The following information shall be disclosed regarding the scope of application of rules governing prudent business conduct on a consolidated basis:

- a) differences between principles of consolidation for accounting purposes and principles of consolidation for prudential purposes, with a brief description of the controlled entity that states whether:
  - 1. it is fully consolidated;
  - 2. it is proportionally consolidated;
  - 3. a holding in this entity is deducted when calculating the consolidated own funds;
  - 4. it is not consolidated;
  - 5. a holding in this entity is not deducted when calculating the consolidated own funds;
- b) any current or expected practical or legal impediments to the prompt transfer of own funds or the repayment of liabilities among the parent undertaking and its subsidiaries;
- c) the total amount by which the actual own funds are less than the required minimum in all subsidiaries not included in the consolidation, and the name or names of such subsidiaries;
- d) any circumstance of making use of the possibility not to apply rules of prudential business conduct on a consolidated basis.

(9) The following information shall be disclosed regarding the securities dealer's own funds:

- a) the main features of the own funds and the composition thereof, including the related terms and conditions;
- b) the total amount of original own funds, with separate disclosure of all positive items and deductions;
- c) the total amount of additional own funds;
- d) the total amount of supplementary own funds;
- e) the total amount of all deductible items, and, separately, the amount of deductible items resulting from the insufficient coverage of expected losses;

f) the total amount of own funds net of deductions and limits laid down for additional own funds.

(10) The following information shall be disclosed regarding the securities dealer's compliance with minimum own funds requirements and internal capital requirements:

a) summary information about the securities dealer's approach to assessing the adequacy of its internal capital in regard to its current and future activities;

b) the own funds requirements:

1. for credit risk in the banking book in accordance with the standardized approach to credit risk, if used by the securities dealer, and applied to each of the exposure classes;
2. for credit risk in the banking book in accordance with the internal ratings-based approach, if used by the securities dealer, and applied to each of the exposure classes. For retail exposures, this requirement applies to each of the exposure classes to which different correlations correspond. For equity exposures, this requirement applies to each of the methods for determining the value of risk-weighted equity exposures, broken down further into equity exposures traded on a stock exchange or organized market, private equity exposures in sufficiently diversified portfolios, and other equity exposures;
3. for credit risk in the trading book, disclosed separately and including the specific risk of debt instruments, the specific risk of equity instruments, the counterparty risk in repurchase transactions, securities or commodities lending or borrowing, derivative transactions, long settlement transactions and in margin transactions, the settlement risk, and the risk of exceeding limits on large exposures in the trading book;
4. for operational risk;
5. for market risk, disclosed separately and including the general risk of debt instruments, the general risk of equity instruments, foreign exchange risk, and commodity risk.

(11) The following information shall be disclosed regarding credit risk and dilution risk:

a) the definitions for accounting purposes of 'past due exposures' and 'impaired exposures';

b) a description of the methods adopted for determining value adjustments and provisions;

c) the total amount of exposures after taking into account value adjustments of assets and the creation and reversal of provisions and without taking into account collateral, and the average amount of exposures for the period broken down by exposure classes;

d) the geographic distribution of all the exposures, broken down by material exposure classes;

e) the distribution of all the exposures by industry or by counterparty type, broken down by material exposure classes;

f) the residual maturity breakdown of all the exposures, broken down by material exposure classes;

g) by significant industry or counterparty type:

1. the amount of impaired exposures and past due exposures;
2. the amount of value adjustments and of the creation and reversal of provisions;
3. changes in value adjustments and provisions during the period;

h) by geographic breakdown:

1. the amount of impaired exposures and past due exposures;
2. the amount of value adjustments and of the creation and reversal of provisions;

i) the reconciliation of changes in value adjustments and in the creation and reversal of provisions for impaired exposures; the information shall comprise:

1. a summary of value adjustments and the creation and reversal of provisions;
2. the opening balance;
3. the total amount of provisions during the period;
4. the total amount of provisions reversed during the period, the total depreciation of exposures during the period, the total amount of other value adjustments arising from exchange rate differences, business combinations, acquisitions and disposals of subsidiaries, and from transfers between provisions during the period;
5. the closing balance.

Value adjustments and the creation and reversal of provisions recorded directly to the income statement shall be disclosed separately;

- j) a functionality analysis of the methodology used to assign internal capital and credit limits;
- k) a functionality analysis of policies with respect to collateral and the creation and reversal of provisions;
- l) a functionality analysis of policies with respect to wrong-way risk exposures;
- m) a functionality analysis of the amount of collateral the securities dealer would have to provide given a downgrade in its credit rating;
- n) the gross positive fair value of contracts, netting benefits, netted current credit exposure, collateral held, and net derivatives credit exposure; net derivatives credit exposure is the credit exposure on derivatives transactions after considering the benefits from legally enforceable netting agreements and collateral arrangements;
- o) measures for exposure value under the methods laid down for the treatment of counterparty credit risk of derivative instruments, repurchase transactions, contracts on securities or commodities lending, long settlement transactions and margin transactions, whichever method is applicable;
- p) the notional value of credit derivative hedges and the distribution of current credit exposure by types of credit exposure;
- q) information on credit derivatives segregated between use for the securities dealer's own credit portfolio, as well as in its intermediation activities, including the distribution of the credit derivatives used, broken down further by protection bought and sold within each group of credit derivatives;
- r) the estimate of  $\alpha$ , if the securities dealer has received the approval of the competent authority to estimate  $\alpha$ .

(12) The following information shall be disclosed for each of the exposure classes within the standardized approach to credit risk:

- a) the names of the External Credit Assessment Institutions (ECAIs) or Export Credit Agencies (ECAs) whose customer ratings are used by the securities dealer, and the reasons for any changes;
- b) the exposures classes for which ratings of each ECAI or ECA are used;
- c) a description of the process used to transfer the issuer and issue credit assessments onto items not included in the trading book;
- d) the association of the rating of each ECAI or ECA with a credit quality step;
- e) the total amount of exposures broken down by credit quality step and the total amount of exposures deducted from own funds, both excluding collateral and, separately, after taking collateral into account;

(13) Where, within the internal ratings-based approach, risk-weighted exposure amounts are calculated for specialized lending exposures or equity exposures, there shall be disclosed the specialized lending exposures broken down by exposure classes for maturities of less than 2.5 years and of 2.5 years or more, or there shall be disclosed the equity exposures broken down by exposure classes weighted as follows:

- a) risk weight = 190% for private equity exposures in sufficiently diversified portfolios;
- b) risk weight = 290% for exchange traded equity exposures;
- c) risk weight = 370% for all other equity exposures.

(14) The following information shall be disclosed regarding the separate character of the internal ratings-based approach:

- a) the competent supervisory authority's acceptance of this approach;
- b) an explanation and review of:
  1. the structure of the internal rating system and its relation to ratings assigned by ECAIs and ECAs;
  2. the use of internal estimates other than for calculating risk-weighted exposure amounts;

3. the process for managing and recognizing credit risk mitigation techniques;
  4. the control mechanisms for internal rating systems including a description of independence, accountability, and rating systems review;
- c) a description of the internal ratings process, provided separately for the following exposure classes:

1. countries and central banks;
2. institutions;
3. corporate, including small or medium-sized legal persons, specialized exposures, and purchased corporate receivables;
4. retail exposures, broken down by the classes to which the different correlations correspond;
5. equities;

Whereas this description shall include the types of exposure included in the exposure class, the definitions, methods and data for estimation and validation of probability of default (PD) or loss given default (LGD) and conversion factors, including assumptions employed in the derivation of these variables, and the description of material deviations from the definition of default, including the factors affected by such deviations;

- d) the total amount of exposures broken down by exposure classes countries and central banks, institutions and corporate, and, separately, the total amount of exposures for which the securities dealer uses own estimates of LGDs or conversion factors;
- e) total exposures (for the exposure classes countries and central banks, institutions and corporate, the sum of outstanding loans and exposure values for undrawn commitments; for equities, the outstanding amount) – for each of the exposure classes countries and central banks, institutions, corporate and equity, and across a sufficient number of obligor grades (including default) to allow for differentiation of credit risk;
- f) the average LGD in percentage where own LGD estimates are used for the calculation of risk-weighted exposure amounts – for each of the exposure classes countries and central banks, institutions, corporate and equity, and across a sufficient number of obligor grades (including default) to allow for differentiation of credit risk;
- g) the exposure-weighted average risk weight – for each of the exposure classes countries and central banks, institutions, corporate and equity, and across a sufficient number of obligor grades (including default) to allow for differentiation of credit risk;
- h) the amount of undrawn commitments and exposure-weighted average exposure values for each exposure class mentioned in (c) where the securities dealer uses own estimates of conversion factors for the calculation of risk-weighted exposure amounts – for each of the exposure classes countries and central banks, institutions, corporate and equity, and across a sufficient number of obligor grades (including default) to allow for differentiation of credit risk;
- i) the information mentioned in (e) to (h) or an analysis of exposures (outstanding loans and exposure values for undrawn commitments) against a sufficient number of expected loss grades to allow for differentiation of credit risk – for the retail exposure class and for each of the exposure classes under (c);
- j) the amount of value adjustments and the amount of provisions for the immediately preceding accounting period for each exposure class mentioned in (c) and how they differ from the preceding accounting period;
- k) a description of the factors that affected the loss in the preceding periods, including whether the LGDs, default rates or conversion factors were higher than average;
- l) a comparison of the estimates against actual outcomes over a longer period. At a minimum, this shall include information on estimates of losses against actual losses in each exposure class mentioned under (c) over a period sufficient to allow for a reliable assessment of the performance of the internal rating process for each exposure class mentioned under (c). A securities dealer which uses own estimates of LGD or conversion factors shall disclose the LGD and conversion factor outcomes against estimates provided in accordance with this Decree.

(15) The following information shall be disclosed regarding securitization:

- a) the securities dealer's objectives in relation to securitization;
- b) the role of the securities dealer in regard to securitization;
- c) the extent of the securities dealer's involvement in securitization;
- d) the methods used to calculate risk-weighted exposure amounts in relation to securitization;
- e) a summary of the accounting policies for securitization, including:
  1. whether the transactions are treated as sales or financings;
  2. the recognition of gains on sales;
  3. the key assumptions for valuing retained interests;
  4. the treatment of synthetic securitizations;
- f) the names of the ECAIs or ECAs whose customer ratings are used for securitizations and the types of exposure broken down by each ECAI or ECA;
- g) the total outstanding amount of exposures securitized by the securities dealer, broken down into exposures under traditional securitization and exposures from synthetic securitization and by exposure type;
- h) the total amount of impaired and past due exposures securitized, broken down by exposure type and the losses recognized by the securities dealer during the period;
- i) the total amount of securitized exposures retained or purchased, broken down by exposure type;
- j) the total amount of securitized exposures retained or purchased, broken down by risk weights; exposures that have been risk-weighted at 1250% or deducted from own funds shall be disclosed separately;
- k) the total outstanding amount of securitized revolving exposures segregated by the originator's interest and the investor's interest;
- l) a summary of securitizations during the period, including the amount of securitized exposures broken down by exposure type, and the gain or loss on sale broken down by exposure type;

(16) Where own models are used for the calculation of market risk, the following information shall be disclosed:

- a) for each sub-portfolio:
  1. the characteristic of the market-risk models used;
  2. a description of the stress testing applied;
  3. as description of the approaches used for back-testing and validating the accuracy and consistency of the internal models for market risk and of the risk calculation procedures used by these models;
- b) details about how this approach is accepted by the competent supervisory authority;
- c) a description of the extent and methodologies for compliance with valuation requirements laid down to ensure the correct calculation of market risk using own models.

(17) The following information shall be disclosed regarding operational risk:

- a) details about the approaches to the calculation of own funds requirements for operational risk;
- b) a description of the methodology used, including an evaluation of the relevant internal and external factors where the securities dealer employs an advanced measurement approach for the calculation of the own funds requirement for operational risk; where the securities dealer combines an advanced measurement approach with other approaches, the scope and coverage of the different approaches shall be disclosed.

(18) The following information shall be disclosed regarding exposures in equities not included in the trading book:

- a) the objectives of the exposures held (for example, capital gains purposes or strategic reasons), and an overview of the accounting policies used, including valuation and significant changes in these policies;

- b) the balance sheet value and fair value of these exposures, and for exposures traded on a stock exchange or organized market, a comparison to the market value where it is materially different from the fair value;
- c) the types, nature and amounts of exposures, broken down into exchange-traded exposures, private equity exposures in sufficiently diversified portfolios, and other exposures;
- d) the total amount of realized gains or losses arising from sales or liquidations during the period;
- e) the total amount of unrealized gains or losses, the total amount of latent revaluation gains or losses, and any of these amounts included in the original or additional own funds.

(19) The following information shall be disclosed regarding exposures to interest rate risk on positions not included in the trading book:

- a) the nature of the interest rate risk and the key assumptions for the measurement of this risk, including assumptions concerning loan prepayments, the behaviour of non-maturity deposits, and the frequency of measurement of this risk;
- b) the effect of any increase or reduction in interest rates on the securities dealer's financial results, broken down by currency.

(20) The following information shall be disclosed regarding credit risk mitigation techniques:

- a) the policies and processes for on- and off-balance sheet netting, and the extent to which netting is used;
- b) the policies and processes for collateral valuation and management;
- c) a description of the main types of collateral taken;
- d) the main types of guarantor and credit derivative counterparty and their creditworthiness;
- e) market or credit risk concentrations within the credit risk mitigation;
- f) the total amount of exposures, not including own estimates of LGD or conversion factors, which are covered – after the application of volatility adjustments – by eligible financial collateral, and the total amount of exposures covered by other eligible collateral, broken down by each exposure class and considered after netting, where applicable;
- g) the total amount of exposures (after netting, where applicable) which is covered by guarantees or credit derivatives, broken down for each exposure class. For the equity exposure class, this requirement applies to each of the following approaches: the simple risk weight approach, the PD/LGD approach, and the internal models approach.

(21) The securities dealer using the advanced measurement approach for operational risk mitigation processes shall disclose a description of the use of insurance for the purpose of mitigating the risk.

(22) In the case of a parent securities dealer in the European Union, or a securities dealer controlled by a parent financial holding company in the European Union or a securities dealer in which a parent financial holding company in the European Union has a participation, there shall be disclosed information on a consolidated basis under paragraphs (1) to (20) and information under paragraph (21).

(23) In the case of a securities dealer mentioned in paragraph (22) which has a significant subsidiary, the information mentioned in paragraphs (9) and (10) shall be disclosed in regard to this subsidiary, on an individual or consolidated basis; where there is change in the disclosure method, the reasons for such change shall also be disclosed.

(24) The subsidiary of a parent securities dealer in the European Union shall be deemed to be significant where:

- a) its profits amount to at least 10% of the profits of the consolidated group of which it is a member, or
- b) in comparison with other entities of the financial market in the Slovak Republic, the interest in a certain field of its business is greater than 10%.

## **Article 2**

(1) Information under Article 1 shall be disclosed in the Slovak language on the website of the securities dealer or the branch of a foreign securities dealer, in a format allowing for it to be copied. If the securities dealer or the branch of a foreign securities dealer does not have its own website, the information under Article 1 shall be disclosed in the Slovak language on the official website of the Slovak Association of Securities Dealers, in a format allowing for it to be copied. Information under Article 1 shall be disclosed at least until the disclosure of the information for the next calendar half-year or the next calendar year.

(2) Information under Article 1 shall be disclosed as at the last date of the relevant calendar half-year, with the exception of information under Article 1(7)(a), (11)(j) to (m), (15)(a) and (20)(a) and (b), which shall be disclosed as at the last day of the calendar year.

(3) Information under Article 1 shall be disclosed not later than 30 days after the last day of the first half of each calendar year and not later than 150 days after the last day of the second half of the calendar year, with the exception of information under Article 1(5), (6), (7)(a), (8), (11)(j) to (m), (15)(a) and (20)(a) and (b).

(4) Information under Article 1(7)(a), (11)(j) to (m), (15)(a) and (20)(a) and (b) shall be disclosed not later than 150 days after the last day of each calendar year.

(5) Information under Article 1(5), (6) and (8) which the securities dealer discloses for a consolidated group shall be disclosed as at the last day of the relevant half of each calendar year and shall be disclosed not later than 70 days after the last day of the first half of the relevant calendar year, and not later than 150 days after the last day of the second half of the relevant calendar year.

## **Article 3**

(1) Where the field of the disclosure is not subject to Article 173f(15) of the Act, this Decree shall first apply to the disclosures for the second half of 2007 and for the full year 2007; otherwise, it shall first apply to disclosures for the first half of 2008 and for the full year 2008.

(2) Where the securities dealer is also a bank, or where the branch of a foreign securities dealer is also the branch of a foreign bank, disclosures shall be made in accordance with a separate regulation.<sup>5)</sup>

## **Article 4**

This Decree transposes the legal acts of the European Communities and European Union stated in the Annex.

## **Section II**

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<sup>5)</sup> Decree no. 1/2007 of the National Bank of Slovakia of 2 January 2007 on disclosures by banks and branches of foreign banks (notification no. 41/2007 Coll.).

Decree no. 1/2007 of the National Bank of Slovakia of 2 January 2007 on disclosures by banks and branches of foreign banks (notification no. 41/2007 Coll.) shall be amended as follows:

1. In Article 1(2)(d) to (f), for "(18)" there shall be substituted "14".

2. In Article 1, paragraph (13) shall read as follows:

"Where, within the internal ratings-based approach, risk-weighted exposure amounts are calculated for specialized lending exposures or equity exposures, there shall be disclosed the specialized lending exposures broken down by exposure classes for maturities of less than 2.5 years and of 2.5 years or more, or there shall be disclosed the equity exposures broken down by exposure classes weighted as follows:

- a) risk weight = 190% for private equity exposures in sufficiently diversified portfolios;
- b) risk weight = 290% for exchange traded equity exposures;
- c) risk weight = 370% for all other equity exposures."

3. In Article 2(4) there shall be deleted "(5), (6)," and "(8)".

### **Section III**

This Decree shall come into force on 1 October 2007.

**Ivan Šramko**  
**Governor**

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