



proved in 2008 and updated in 2014. In the case of the euro-denominated and US dollar-denominated portfolios, interest rate risk is managed in a standard way through interest rate swaps and futures contracts. Taking into

account hedging costs and net proceeds on the liabilities side, the return on the euro-denominated portfolio in 2016 was 0.45% and the return on the US dollar-denominated portfolio was 0.74%.

2 FINANCIAL STABILITY AND FINANCIAL MARKET SUPERVISION⁶

2.1 FINANCIAL STABILITY

In 2016 NBS issued seven macroprudential policy decisions concerning financial stability from the perspective of cyclical and structural systemic risks. Four of these decisions were regular quarterly decisions on the setting of the countercyclical capital buffer rate. A significant decision for financial stability was NBS Decision No 20/2016, in which the NBS Bank Board decided to increase the countercyclical capital buffer rate to 0.5%, with effect from 1 August 2017, in response to the financial cycle's expansionary phase and the persisting pressures in the credit market.

Another two decisions were related to banks categorised as other systemically important institutions (O-SIIs) and a further decision dealt with NBS's reciprocation of a buffer set by another Member State (Eesti Pank approved a systemic risk buffer of 1% of total risk exposure for all domestic exposures). The 2016 annual review of the list of O-SIIs operating in Slovakia did not result in any changes to its composition. The minimum capital requirement for these banks will be gradually increased between 1 January 2017 and 1 January 2018 through increases in their O-SII buffers and systemic risk buffers in the amounts defined in the respective NBS decisions.

Important macroprudential policy measures adopted in 2016 included the Housing Loan Act, the amendment to the Consumer Credit Act and NBS Decree No 10/2016 laying down detailed provisions on the assessment of borrowers' ability to repay housing loans. These acts and the

decree facilitated the transformation of NBS Recommendation No 1/2014 on risks related to market developments in retail lending into legislation governing housing loans, enabled the recalibration of certain parameters, and created a legal framework for supervising whether housing loans are being provided in compliance with prudential rules.

2.2 FINANCIAL MARKET SUPERVISION

THE BANKING SECTOR

As at 31 December 2016 there were 13 banks and 15 branches of foreign banks operating in the Slovak banking sector.

Under the Single Supervision Mechanism (SSM), consisting of the ECB and the national competent authorities of participating Member States, all banks and their branches operating in Slovakia are categorised into:

- significant banks – supervised directly by the ECB (Tatra banka, a.s.; Všeobecná úverová banka, a.s.; Slovenská sporiteľňa, a.s.; Československá obchodná banka, a.s. and ČSOB stavebná sporiteľňa, a.s., both belonging to the KBC Group; UniCredit Bank Czech Republic and Slovakia, a.s., pobočka zahraničnej banky, belonging to the UniCredit Bank banking group); and
- less significant banks (other banks with a registered office in Slovakia) – supervised directly by NBS.

Within the scope of the SSM, the ECB has exclusive power to issue or revoke banking authorisations to/from credit institutions, as well as to

⁶ A detailed Report on the activities of the Financial Market Supervision Unit of NBS for 2016 is available (in Slovak language only) on the NBS website at <http://www.nbs.sk/sk/publikacie/publikacie-dohladu/sprava-o-cinnosti-udf>



assess notifications of the acquisition or transfer of qualifying holdings in credit institutions, with the exceptions related to resolution and Article 15 of Regulation (EU) No 1024/2013. Authorisation proceedings relating to credit institutions established in Slovakia are conducted with close cooperation between the ECB and NBS. ECB may also evaluate the suitability of members of the board of directors or supervisory board, but only for significant banks.

All applications for an authorisation to conduct business or for the assessment of qualifying holdings are submitted to NBS. In such cases, NBS assesses the applications according to Slovak law, while the ECB does so according to EU law. In the period under review NBS initiated 22 proceedings falling within the competence of the ECB, which mainly concerned the assessment of suitability of new members of the boards of directors and supervisory boards of significant banks.

Within its area of competence NBS issued a total of 73 decisions relating to authorisation proceedings in the banking sector, mostly concerning the granting of prior approval to appoint members to the boards of directors or supervisory boards of banks, and managerial employees, general proxies, and heads of the internal control and internal audit units of banks.

In one case in 2016, sanction proceedings were initiated against a banking institution.

In 2016 BNP Paribas Personal Finance S.A., pobočka zahraničnej banky began operating in Slovakia. Following a cross-border merger of the French credit institution COFIDIS SA and the Portuguese credit institution BANCO COFIDIS, SA, the foreign bank BANCO COFIDIS, SA, operating in Slovakia through its organisational unit BANCO COFIDIS, SA, pobočka zahraničnej banky (previous name: Banco Banif Mais, S.A., pobočka zahraničnej banky), ceased to exist as of 1 December 2016. As of 1 December 2016 the successor foreign credit institution COFIDIS SA began carrying out banking activities in Slovakia through its organisational unit COFIDIS SA, pobočka zahraničnej banky.

NBS registered 21 foreign credit institutions that started to provide banking services in Slovakia

without establishing a branch. NBS notified a foreign supervisory authority about the intention of Poštová banka, a.s. to provide banking services in Germany without establishing a branch.

In 2016 a total of eleven thematic on-site inspections were conducted in banks and branches of foreign banks. The on-site inspections focused mainly on the effectiveness of banks' risk management systems with particular attention paid to credit risk and interest rate risk in the banking book, as well as on operational risk management systems, the provision of payment services, banks' internal governance, and their level of protection against money laundering and terrorist financing.

As the national supervisory authority NBS participated in the conduct of the ECB's supervisory tasks through its employees' direct participation in the work of Joint Supervisory Teams (JSTs) and by drafting decisions within the ECB's decision-making processes. All on-site inspections at significant banks under the ECB's direct supervision were conducted by NBS staff acting under ECB authorisation.

In addition to the regular examination of statements and reports, monitoring of prudential business indicators, analytical activities, communication with the supervised entities and their domestic supervision, the conduct of off-site supervision of banks and branches of foreign banks also includes joint activities under the ECB's direct and indirect supervision and work in supervisory colleges for individual banks.

In regard to the banks under the ECB's direct supervision, the annual assessment of banks was conducted in accordance with the SSM processes thanks to the continuing cooperation in JSTs, whose members included employees of NBS. Off-site supervision was used to review the assessment of ex ante and ex post notifications in accordance with Commission Delegated Regulation (EU) No 529/2014. Next, the validation reports on banks' internal models and internal audits were reviewed and compliance with requirements and recommendations stemming from decisions on the use of internal models was evaluated.



Communication with the ECB concerning banks under direct NBS supervision included topics such as the gradual harmonisation of supervisory practices, assessment of these banks and exchange of information between NBS and the ECB.

THE PAYMENT SERVICES AND ELECTRONIC MONEY ISSUANCE SECTOR

As at 31 December 2016 there were eleven payment institutions operating in the Slovak financial market, seven of which were authorised to provide payment services without limitation and four were authorised to provide payment services in a limited scope.

One electronic money institution was active in the Slovak financial market in 2016.

A total of 33 decisions were issued during 2016 in regard of payment services, with 32 of them entering into force in the same year. These decisions included the authorisation of Pay Solution, a.s. to provide payment services without limitation, authorisation of SWAN Mobile, a.s. to provide payment services in a limited scope and the granting of prior approval to CETELEM SLOVENSKO a.s. to return its licence to provide payment services.

A total of seven decisions to grant prior approval concerning electronic money issuance were issued in 2016.

In 2016 NBS registered 37 foreign payment institutions intending to provide payment services and 34 foreign electronic money institutions intending to issue, offer and exchange electronic money or provide payment services in Slovakia without establishing a branch.

Based on a foreign supervisory authority's notification of its intention to provide payment services in Slovakia through a branch, NBS registered the branch of a foreign payment institution Global Payments, s.r.o., organizačná zložka in 2016.

One comprehensive on-site inspection at an electronic money institution (started in 2015) was completed in 2016. The year under review also saw three comprehensive on-site inspec-

tions at payment institutions, the purpose being to review and assess the institutions' payment services systems, compliance with the conditions stipulated for their business, internal control and internal audit mechanisms, risk management systems and selected risks, as well as their systems for the prevention of money laundering and terrorist financing, their fulfilment of obligations in this area and their compliance with other acts of general application.

THE FOREIGN EXCHANGE SECTOR

As at 31 December 2016 there were 1,155 entities in Slovakia holding a foreign exchange authorisation. During 2016 NBS issued 15 decisions, 11 of which concerned the granting of a foreign exchange authorisation.

Eleven sanction proceedings were conducted and completed in 2016. Two of these proceedings were initiated in 2016, while the other nine commenced in 2015.

Twelve on-site inspections focusing on compliance with the Foreign Exchange Act were carried out in 2016.

THE NON-BANK CREDITORS SECTOR

As at 31 December 2016 there were 34 non-bank creditors in the Slovak financial market, 31 of which were authorised to provide consumer loans without limitation, one was authorised to provide consumer loans in a limited scope and two were other creditor authorised to provide credits or loans which were not consumer loans.

In 2016 a total of 86 decisions were issued concerning non-bank creditors. Noteworthy decisions included 13 authorisations to provide consumer loans and other credits to consumers, three rejected applications for authorisation to provide consumer loans, and 54 prior approvals to elect or appoint members of the statutory body and supervisory board and heads of the internal control units.

In 2016 four comprehensive on-site inspections of non-bank creditors were carried out with the following objectives: to review their compliance with the Consumer Credit Act in the provision of consumer loans and compli-



ance with the conditions stipulated for their business, to verify information provided during the proceedings for authorisation to provide consumer loans, to assess their internal control and internal audit mechanisms, their risk management systems together with selected risks, and their systems for the prevention of money laundering and terrorist financing.

THE INSURANCE SECTOR

As at 31 December 2016 the Slovak financial market included 16 insurance companies with a registered office in Slovakia and 23 branches of insurance or reinsurance companies established in another EU Member State. A total of 45 notifications were issued in 2016 concerning the activities of branches of insurers and reinsurers established in other EU Member States.

Decisions issued by the Financial Market Supervision (FMS) Unit in 2016 mainly concerned changes (extensions) in the authorisations of financial institutions to conduct insurance business and financial intermediation in accordance with separate regulations.

In 2016 there was one case of the FMS Unit conducting sanction proceedings, while three first-instance decisions to impose a sanction entered into force.

In the context of the insurance sector's new regulatory regime effective from 1 January 2016 (Solvency II), NBS decided that the main aim of its prudential supervision activities in the insurance sector in the first two years following the implementation of the new regulation requirements would be to increase significantly its contacts with insurance undertakings, primarily by offering them consultation services and by guiding their activities. NBS concentrated its activities on preparing and implementing multi-day meetings for senior executives and staff members performing key functions at all 15 insurance undertakings operating under the Solvency II regime.

Off-site supervision was used to review the regular reports and statements of insurance companies and the Slovak Insurers' Bureau for the

year 2015 (audited) and for all quarters of 2016 (interim), as well as ad hoc notifications submitted through the STATUS DFT information system and the Statistics Collection Portal. In 2016, in connection with the new Solvency II framework, the FMS Unit conducted off-site supervision to analyse information and documentation submitted by the insurance companies certifying the competence, fitness and propriety of the persons managing the insurance company or holding key positions, and to review outsourced activities.

Moreover, two thematic on-site inspections were completed, verifying the preparedness of insurers for the use of a partial internal model for calculating the capital requirements under the Solvency II regime.

THE PENSION FUND SECTOR

In 2016 the Slovak financial market included six old-age pension fund management companies (PFCMs) managing a total of 20 pension funds (the second pillar of the pension system), and four supplementary pension management companies (SPMCs) managing a total of 17 supplementary pension funds (the third pillar). Depository activities under the Old-Age Pension Scheme Act and the Supplementary Pension Scheme Act were performed by five banking institutions.

In 2016 the FMS Unit issued 17 decisions concerning the supplementary pension scheme.

No sanction proceedings concerning the old-age pension scheme were initiated or conducted by the FMS Unit in 2016. In the year under review, the FMS Unit initiated two sanction proceedings concerning the supplementary pension scheme under the Supplementary Pension Scheme Act.

In 2016 off-site supervision was exercised over the six PFCMs and four banking institutions performing depository activities under the Old-Age Pension Scheme Act. The purpose of this supervision was to verify the compliance of PFCMs, SPMCs, and the pension fund depositories with their reporting duties to NBS. The outcomes of these inspections were used to assess the riskiness of completed transactions and their effect



on the overall risk exposure of pension fund portfolios.

The year under review saw the completion of six thematic on-site inspections at PFMCS, each focused on reviewing the company's work in preparing and maintaining an efficient internal control system for both itself and the pension funds it manages.

THE FINANCIAL INTERMEDIATION AND FINANCIAL ADVISORY SERVICES SECTOR

As at 31 December 2016 there were 42,039 entities registered in the Register of Financial Agents and Advisers (REGFAP). In 2016 a total of 36 new entities from different sectors were entered into REGFAP, with the FMS Unit granting authorisations to act as independent financial agent to 33 legal persons and authorisations to act as financial adviser to three legal persons. During the year 88 independent financial agents or financial advisors were removed from REGFAP. In addition, 259 financial intermediaries from other Member States were entered into REGFAP, mostly intermediaries authorised to provide insurance and reinsurance services in Slovakia pursuant to the principle of free provision of services without establishing an organisational unit, as well as four financial intermediaries with an established organisational unit. In 2016 NBS accepted and processed 6,867 electronic proposals from applicants to register, deregister or change the registration of their affiliated entities in REGFAP.

In 2016 the FMS Unit conducted a total of 80 proceedings concerning financial intermediation and financial advisory services, with 63 of these being newly initiated sanction proceedings (60 in the financial intermediation sector and three in the financial advisory services sector). A total of 51 first-instance decisions in the financial intermediation and financial counselling sector came into effect in the year.

In 2016 off-site supervision in the sector of financial intermediation and financial advisory services was used to evaluate the compliance of the supervised entities with the statutory reporting requirement towards NBS via an internet application or in writing, as well as to check the professional qualification of inde-

pendent financial agents and financial advisers (especially the repeating of professional examination for upper/mid-level professional qualification) and to examine enquiries and other requests received from legal entities and natural persons.

A total of six thematic on-site inspections of legal persons performing the activities of independent financial agents were carried out. One comprehensive on-site inspection of an independent financial agent (started in 2015) was formally completed at the beginning of 2016. Thematic inspections focused on compliance with the provisions of the Financial Intermediation and Financial Advisory Services Act relating to the competence, fitness and propriety of personnel, reporting requirements towards NBS under this Act and compliance with the requirements and obligations set out in the decisions issued by NBS, especially changes of information in comparison with the information submitted in applications for authorisation to perform the activities of an independent financial agent.

THE SECURITIES MARKET SECTOR

As at the end of 2016 there were 15 investment firms operating in the Slovak financial market. During 2016 the FMS Unit approved 43 securities prospectuses and one registration document, eight supplements to securities prospectuses and three supplements to investment certificate prospectuses.

The FMS Unit issued 18 decisions concerning investment firms in 2016, most of them concerning authorisations to provide investment services, changes in authorisations to provide investment services and in prior approvals, e.g. for the appointment of members to the board of directors or for the relocation of a firm's head office.

Out of the 43 approved prospectuses, four prospectuses were created as basic prospectuses for the purposes of a potential public offer and/or potential admission to trading on a regulated market (i.e. in the maximum scope of purpose) for three issuers. One of the approved basic prospectuses was intended for the investment certificate issuances, one for



bond issuances, one for the issuances of mortgage bonds and one for the issuances of both bonds and mortgage bonds. The FMS Unit approved: 14 prospectuses and ten supplements to prospectuses for the purposes of a public offer and the subsequent admission to trading on a regulated market; 16 prospectuses and one supplement to a prospect exclusively for the purposes of admission of the respective securities to trading on a regulated market (securities were not issued on the basis of a public offer); 13 prospectuses for the purposes of securities' public offer without the subsequent request for their admission to trading on a regulated market. In 2016, the FMS Unit received 71 notifications from the supervisory authorities of other EU Member States concerning the approval of securities' prospectuses or of supplements to such prospectuses, and sent four such notifications to the supervisory authorities of other EU Member States.

The FMS Unit issued ten authorisation decisions for the performance of depository activities in 2016.

No authorisation proceedings were conducted in 2016 concerning the Investment Guarantee Fund.

Within the scope of authorisations relating to the segment of issuers of shares traded on a regulated market of the Bratislava Stock Exchange (BCPB, a.s.), the FMS Unit issued one decision in 2016, which ended the approval proceeding of a mandatory takeover bid. In 2016, the FMS Unit issued one authorisation decision on the approval of change in stock exchange rules relating to BCPB, a.s.

The FMS Unit conducted 14 sanction proceedings concerning securities markets in 2016, nine of which were initiated in that year. In 2016 eight first-instance decisions entered into force.

In 2016 off-site supervision was exercised over the 15 domestic investment firms, five investment firms operating in Slovakia through their branches under the MiFID Directive, and 13 banks authorised to provide investment services. Off-site supervision was used primarily

to monitor the supervised entities' compliance with prudential rules, as well as to assess their financial situation and risk profiles. It also covered the activities of BCPB, a.s. and Central Securities Depository of the SR, a.s. (CDCP SR, a.s.), as well as the compliance with the reporting requirement by 78 issuers of securities admitted to trading on the regulated market of BCPB, a.s. via the Central Register of Regulated Information (CERI), which is maintained by NBS. They numbered 71 as at 31 December 2016. Proceedings concerning the non-provision of complete mid-year financial reports for the first half of 2015 were initiated against three issuers of securities admitted to trading on a regulated market of BCPB, a.s.

Two comprehensive on-site inspections were completed in 2016. One of them was initiated in 2015, while the other was both a comprehensive inspection and follow-up inspection to assess the implementation of measures and recommendations adopted to remedy the deficiencies identified during a comprehensive on-site inspection in 2013. A further six thematic on-site inspections in six investment firms were carried out in 2016. One of them, focusing on the provision of investment services, investment activities and auxiliary services to clients, was started in 2015. The remaining five thematic on-site inspections were used to review the compliance of individual companies and their employees with procedures for the prevention of money laundering and terrorist financing.

In the third quarter of 2016 a thematic on-site inspection was initiated at one banking institution, its focus being on the provision of investment services, investment activities and auxiliary services to clients in accordance with the Securities Act, as well as on depository activities for supplementary pension funds and investment funds.

THE INVESTMENT FUND SECTOR

In 2016 there were seven asset management companies (AMCs) operating in the Slovak market. In the second half of the year one of them was issued an authorisation to establish and manage alternative investment funds and foreign alternative investment funds. Two AMCs were issued an authorisations to estab-



lish a standard investment fund and one was issued an authorisation to establish a special public fund. The entry into force of Commission Delegated Regulation (EU) No 2016/438 was reflected in changes in the composition of AMCs supervisory boards, preceded by the issuance of seven prior approvals for the appointment of new board members.

In 2016 the FMS Unit did not initiate or conduct any sanction proceedings concerning the investment fund sector.

In 2016 off-site supervision was exercised over the seven domestic asset management companies, managing a total of 70 standard investment funds and 20 alternative investment funds, and five banking institutions performing depository activities under the Collective Investment Act. One of the off-site supervision priorities was to verify the compliance of AMCs and investment fund depositories with their reporting duties to NBS. The collected information was used to evaluate the riskiness of completed transactions and their effect on the overall risk exposure of investment fund portfolios. Special emphasis was placed on the verification of the correct independent valuation of financial instruments in investment fund assets, as well as on the acquisition of such financial instruments into the investment fund assets and its compliance with the Collective Investment Act.

In 2016 three thematic on-site inspections were initiated to review the application of remuneration principles and compliance with the Guidelines on sound remuneration policies under the Alternative Investment Fund Managers Directive, as well as to evaluate the implementation of measures, strategies and procedures for the identification of risks and for internal audit.

The second quarter of 2016 saw the completion of a thematic on-site inspection at a banking institution. Initiated in 2015, the inspection focused on the institution's depository activities for investment funds and pension funds under the Collective Investment Act and Old-Age Pension Scheme Act. In the third quarter of 2016 a thematic on-site inspection was initiated at an-

other banking institution, focusing on its depository activities for supplementary pension funds and investment funds, as well as on its provision of investment services, investment activities and auxiliary services to clients under the Securities Act.

2.3 FINANCIAL MARKET REGULATION

THE BANKING SECTOR

At the beginning of 2016 the Housing Loan Act, drafted by NBS and the Ministry of Finance of the Slovak Republic was published in the Collection of Laws of the Slovak Republic. It enacted the EU's Mortgage Credit Directive into Slovak law and created a legal framework for more effective functioning of the housing loan market within the EU's harmonised internal market.

During 2016 NBS cooperated with the Ministry of Finance in drafting an amendment to the Consumer Credit Act, which was published in the Collection of Laws of the Slovak Republic in November 2016. The purpose of the amendment was to determine the minimum set of regulatory requirements needed to ensure prudential provision of consumer loans by the creditors and to account for the deficiencies identified during application of the Act in practice. The provisions of the amendment were aimed at preventing negative trends in the provision of consumer loans, which could potentially lead to increased risks for creditors, consumers, and the wider economy.

NBS also cooperated with the Ministry of Finance in drafting a new Act on the implementation of international sanctions, which concerns the freezing of terrorists' financial resources and assets.

In addition, NBS drafted other legal regulations, mainly NBS decrees, which needed to be prepared or adopted in response to current developments in the banking sector. Among the most important of these were a decree on the Housing Loan Act, an amendment to a decree on the Register of Bank Loans and Guarantees (RBLG), and a decree laying down the elements of an application to register a representative office of a foreign bank.



The decree concerning the Housing Loan Act laid down prudential rules for the provision of housing loans (mainly in regard to the assessment of borrowers' ability to repay housing loans) and for real estate collateral, as well as maturity caps on housing loans.

The amendment to the RBLG decree was designed to address developments related to the introduction of a new version of the RBLG information system, the purpose of which was to ensure quick access to up-to-date and high-quality data stored in the register.

The decree on the registration of foreign banks' representative office was primarily intended to harmonise certain terms with the current legal situation and to implement requirements identified by NBS specialist departments on the basis of the respective law's previous application in practice.

THE PAYMENT SERVICES AND ELECTRONIC MONEY ISSUANCE SECTOR

In 2016 preliminary information was published on the preparation of an amendment to the Payment Services Act transposing the PSD 2 Directive. This Directive was adopted in line with the Europe 2020 strategy and the digital agenda, looking to contribute to the establishment of an EU harmonised single market for electronic payments.

The main objectives of the PSD 2 Directive are to promote transparency and innovation in payment services, to facilitate the use of electronic payments, mitigate security risks associated with payments, strengthen consumer rights, keep consumers better informed, foster consumer protection, ensure non-discriminatory conditions for payment service providers and support competition in this sector.

THE NON-BANK CREDITORS SECTOR

The amendment to the Consumer Credit Act aimed at correcting deficiencies identified during the act's practical application applied to both banks and non-bank creditors.

The amendment allowed, among other things, for an extended application of rules set out in

the recommendation on risks related to market developments in retail lending to all providers of consumer loans, including those in the non-bank sector, representing a sizeable share of the consumer credit market.

The Consumer Credit Act amendment was also closely related to the Housing Loan Act, which defined several prudential rules for the provision of housing loans.

THE INSURANCE SECTOR

Following the enactment of the EU's Solvency II Directive into Slovak law via the recast Insurance Act that entered into force on 1 January 2016 (except for certain provisions), and with a view to promoting further harmonisation, NBS issued in February 2016 a decree on reporting (to NBS) by insurance undertakings not subject to a special regime and reinsurance undertakings, which includes details about reporting deadlines, procedures and methodology. This decree also stipulates the method of reporting under Article 304 of the Commission Delegated Regulation (EU) No 2015/35 and adds information required by the ECB for harmonised reporting within the European Economic Area.

In October 2016 a decree entered into force laying down details about operational reports on the risk management units of insurance undertakings subject to a special regime.

In addition to these two decrees, which complemented the twelve decrees related to the Solvency II regime published in 2015, NBS prepared seven recommendations transposing the EIOPA guidelines on Solvency II. These recommendations concern the activities of insurance and reinsurance undertakings, as well as the branches of foreign insurance and reinsurance undertakings, and contribute to a consistent interpretation of secondary European law and convergence in the conduct of supervision. At the same time, the aim of these recommendations is to ensure the smooth functioning of the insurance market by introducing consistent, effective and efficient procedures for the supervisory authorities and the supervised entities.



THE PENSION FUND SECTOR

In 2016 the FMS Unit cooperated with the Ministry of Labour, Social Affairs and Family of the Slovak Republic in drafting an amendment to the Old-Age Pension Scheme Act. The amendment changes provisions on scheduled payments in order to make these payments more widely available.

Within its legislative remit, NBS drafted three pieces of secondary legislation related to amendments of the Old-Age Pension Scheme Act and the Supplementary Pension Scheme Act, to the transition to reporting via the new Statistics Collection Portal (SCP) information system, and to requirements arising from implementation of the existing law.

The regulatory activities of NBS also included the drafting and publishing of an FMS Unit methodological guideline intended to provide PFMCs with clarification of the expected procedures in assessing the credit risk of issuers when acquiring and holding selected financial instruments as pension fund assets.

THE FINANCIAL INTERMEDIATION AND FINANCIAL ADVISORY SERVICES SECTOR

On 1 January 2016 an amendment to the Financial Intermediation and Financial Advisory Services Act entered into force, replacing the term “senior employee of a financial agent or a financial adviser” with the term “professional guarantor”.

Moreover, the FMS Unit issued two methodological guidelines in 2016. One of them concerned the average amount of financial intermediation costs in life insurance while the other one related to various provisions of the Financial Intermediation and Financial Advisory Services Act.

THE SECURITIES MARKET SECTOR

Throughout 2016 NBS cooperated with the Ministry of Finance of the Slovak Republic on the transposition of the EU’s Markets in Financial Instruments Directive into the Securities Act and the Stock Exchange Act.

Cooperation between NBS and the Ministry of Finance also included the drafting of Act No 292/2016 Coll. amending several separate laws

related to the financial market, including the Securities Act and the Financial Market Supervision Act. The Securities Act was amended to bring national law in line with certain aspects of the directly applicable regulation on improving securities settlement in the EU and to prepare the ground for the TARGET2-Securities project. The Financial Market Supervision Act was amended to enact the provisions of Commission Implementing Directive (EU) No 2015/2392 on the reporting to competent authorities of actual or potential infringements of the MAR Regulation (commonly referred to as “whistleblowing”⁷). The framework established by the amendments to the Financial Market Supervision Act is not limited to the reporting of actual or potential infringements of the MAR Regulation, but is intended to be a comprehensive framework for the entire securities market sector including areas not covered by CID No 2015/2392. The amended regulation extends to the reporting of infringements of all acts that the Financial Market Supervision Act places under NBS’ jurisdiction, including areas in which whistleblowing requirements are not set by EU law.

To support the MAR Regulation’s aim to prevent market abuse involving insider dealing, unlawful disclosure of inside information, and market manipulation, the European Commission published in 2016 regulatory technical standards and implementing technical standards in order to provide further details about conditions, criteria and procedures for the implementation of certain parts of the MAR Regulation.

The FMS Unit issued a Guideline on the application of exemptions from the clearing obligation for intragroup OTC derivative transactions under the EMIR Regulation, which was published on the NBS website.⁸ The purpose of this guideline is to ensure a common procedure and to facilitate applications for these exemptions by providing a form that can be filled in and submitted to NBS.

THE INVESTMENT FUND SECTOR

In 2016 NBS contributed to the drafting of an amendment to the Collective Investment Act. Entering into force on 1 December 2016, the amendment addressed deficiencies identified

⁷ Whistleblowing is primarily the disclosure of information about an alleged infringement of acts of general application known to a reporting person from within the reported supervised entity, e.g. an employee of a supervised entity or a person cooperating with such entity in another way.

⁸ http://www.nbs.sk/_img/Documents/_Dohlad/ORM/RegulaciaTrhov/Usmernenie_k_uplatnovaniu_vynimiek_zo_zuctovacej_povinnosti_IGT.pdf



during the application of the Act in practice. Towards the end of 2016 NBS, in cooperation with the Slovak Association of Asset Management Companies (SASS), began drafting another amendment to the Collective Investment Act, which was aimed at improving the efficiency of collective investment activities and was based on feedback from participants in the local capital market.

At the beginning of 2016 NBS issued an updated Opinion on the transitional provisions of the amendment to the Collective Investment Act, which provided clear details about the procedure to be followed in applying for an authorisation to establish and manage alternative investment funds in accordance with Article 28a of the Collective Investment Act.

In May 2016 NBS issued a Recommendation to AMCs on remuneration principles relating to the procedures for the establishment and application of remuneration principles in accordance with the harmonised guidelines developed by ESMA.

In June 2016 the FMS Unit published a methodological guideline on assessing compliance with certain conditions for authorising the marketing to retail investors in Slovakia of securities or participating interests in foreign alternative investment funds by the means of a public offer. In drafting this guideline, NBS cooperated closely with the SASS.

In December 2016 NBS issued an amendment to a decree on reporting by alternative investment fund managers (AIMs), which stipulated how AIMs are to report to NBS via the SCP information system.

2.4 BANK RECOVERY AND RESOLUTION

In April 2016 the Resolution Council held its fourth meeting, to discuss the 2016 contributions to the Single Resolution Fund, changes to its Statutes and Rules of Procedure, and the election of the Council's Executive Member. Director of the NBS Regulation Department and Council member, Júlia Čillíková, was elected as the Council's Executive Member. In November

2016, at its fifth meeting, the Resolution Council approved a proposal for the implementation of provisions on proportionality in bank resolution and preliminary simplified resolution plans for smaller banks. The Council also approved the Underlying Methodology for determining MREL for selected institutions within the Council's remit with bankruptcy as the preferred resolution strategy.

In 2016 a draft amendment to the Act on Resolution in the Financial Market was prepared. Its purpose was to fine-tune the frameworks for prevention and resolution of potential crisis in the financial market in line with the provisions of the BRRD Directive and to ensure the application of the Act's provisions in practice. The amendment entered into force on 15 November 2016.

With a view to promoting cooperation and preventing different national responses, resolution colleges are being established in line with Article 88 of the BRRD Directive, under which resolution authorities are obliged to cooperate in the resolution of group entities. In 2016 the staff members of the NBS Resolution Section participated in a college established by the Hungarian resolution authority.

In the year under review the Resolution Section continued to monitor the resolution of financial corporations other than credit institutions and investment firms on both global and European level.

2.5 FINANCIAL CONSUMER PROTECTION

As regards its methodological activities in the area of financial consumer protection, the FMS Unit considers them a valuable means to prevent consumer rights infringements, to achieve a high level of predictability and transparency in its work, and to increase legal certainty for supervised entities and consumers. Despite not issuing any methodological guideline for the area of financial consumer protection in 2016, the FMS Unit continued its methodological activities and completed several drafts, which were submitted to professionals and financial market participants for consultation. Moreover,



it started various initiatives, mainly concerning consumer loans, and specifically relating to the issues of prepayment rights, the annual percentage rate of charge (APRC), and involuntary prepayment.

In 2016 two preliminary measures entered into force and six sanction proceedings were initiated. In the event of a breach of obligations in the area of financial consumer protection it is possible to impose financial sanctions, prohibit the use of unfair market practices or unacceptable contractual conditions disadvantageous to the financial consumer, prohibit the provision of financial services that infringe rules for financial consumer protection, and also revoke the creditor's license or other authorisation.

Last year saw a significant rise in the number of broad-based analyses, off-site examinations and on-site inspections. A total of 25 off-site examinations and broad-based surveys/analyses, and 21 on-site inspections, were conducted in 2016. NBS continued to exercise its right to initiate an on-site inspection by procuring financial services under an assumed identity, conducting a total of 95 such "mystery shopping exercises"⁹ during the year.

Supervision of consumer credit provision focused mainly on the disclosure of credit information prior to the conclusion of the loan agreement, the use of unacceptable contractual conditions, contracts' statutory elements, and the use of unfair market practices. In connection with the entry into force of Act No 438/2015 Coll. amending the Consumer Credit Act, supervision focused mainly on breaches of APRC caps and on ancillary services offered with credits. In the sector of housing loans, supervision focused on the methods used to determine loan prepayment fees and other costs charged to financial consumers for early repayment of their loans. Moreover, off-site supervision also verified the form and content of the information provided by means of a representative sample survey of offers of housing loans. Last year's supervision also focused on entities providing consumer loans without the requisite NBS authorisation.

In 2016 NBS received 2,376 complaints against supervised entities from financial consumers and other customers, which was 702 more than it received in 2015 (the year-on-year increase of 40% was the highest to date). Of those complaints that were justified, 60% were resolved by the entity voluntarily addressing the deficiencies identified, without NBS having to compel them to do so through the issuance of a decision and initiation of proceedings (the corresponding share in 2015 was 45%).

The exercise of supervision over consumer loans provided by non-bank creditors was also reflected in the number of complaints received against such entities, which increased from 209 in 2015 to 430 in 2016. Thus consumer loans became the most frequent subject matter of complaints, a position previously long held by motor third party liability insurance. The complaints received about banks concerned mostly mortgage and housing loan fees and consumer loans. The most frequent issue of complaint against insurance undertakings was motor third party liability insurance, which, in line with previous years, accounted for almost 11% of all complaints against these entities. The number of complaints related to financial intermediation remained virtually unchanged during 2010-2016. These complaints continued to concern the method, range and quality of the information financial consumers had received before the financial service was provided.

In 2016 NBS continued to promote financial literacy through various activities, focusing mainly on youth (primary and secondary school students). More than 2,400 students from various parts of Slovakia attended interactive lectures at the NBS headquarters, as well as at schools around Slovakia (during the European Money Week). The FMS Unit contributed to the work of the Financial Literacy Inter-Ministerial Expert Group at the Ministry of Education, Science, Research and Sport of the Slovak Republic, resulting in an updated version of the National Standard for Financial Literacy reflecting the changes in the financial market, and feedback received on the standard's current version.

⁹ Procurement of financial services under an assumed identity for supervisory purposes.