

Financial Market Supervision Report

2019



Czech National Bank — Financial Market Supervision Report — 2019

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Foreword

The Financial Market Supervision Report provides information about the supervisory work carried out by the Czech National Bank last year, including supervision of compliance with the duties set out in the Consumer Protection Act. The Report also contains information on licensing and enforcement, on changes in Czech and EU financial market legislation and on the CNB's activities in the area of international cooperation between financial market supervisory authorities.

Under the powers vested in it by the laws of the Czech Republic, the Czech National Bank – the integrated financial market regulatory and supervisory authority – works to ensure the stability of the financial system and the safe and smooth development of the financial market in the Czech Republic. The integrated supervisor's role includes, in particular, performing off-site surveillance and on-site examinations in financial market entities subject to CNB supervision under the regulations in force, supervising the procedures applied by those entities in practice, and supervising the capital market infrastructure. The CNB's supervisory work also encompasses licensing, approval and authorisation activities, including the formulation of guidance for supervised entities, and the imposition of remedial measures and penalties. The collection, processing and evaluation of information used to support supervision and to inform the public about the situation and trends in the Czech financial market is also an integral part of CNB supervision.

The CNB was supervising 24 domestic banks, including five building societies, and nine credit unions as of the end of 2019. To a limited extent, it was also supervising 25 branches of foreign banks. The domestic **banking sector** was stable in 2019. The sector's total assets increased by 3.6% during the year to CZK 7.5 trillion and its aggregate net profit rose appreciably by 11.6% year on year to CZK 90.9 billion. The total capital ratio of domestic banks stood at 21.3% at the end of 2019, indicating that the sector was well capitalised. The favourable trend in the quality of banks' loan portfolios continued, with the share of non-performing client exposures in total client exposures edging down further to 2.6%. The Czech Republic thus remains among the EU Member States with the lowest levels of this indicator.

The CNB was also supervising 25 domestic insurance companies and one reinsurance company as of the end of 2019. It was also supervising 20 branches of foreign insurance companies and, to a defined extent, the Czech Insurers' Bureau and the Export Guarantee and Insurance Corporation. Developments in the **insurance sector** were largely driven by mergers completed in 2019. Mainly for this reason, the total assets of domestic insurance companies (including foreign branches) fell by 5.2% year on year to CZK 466 billion as of the end of 2019, while the sector's net profit rose by CZK 4.4 billion to CZK 18.4 billion. Gross premiums written increased by 7.3% year on year to CZK 167.1 billion. Gross premiums in life insurance increased for the first time since 2013. The eligible own funds of domestic insurance companies continued to significantly exceed the regulatory solvency requirements.

In addition, the CNB was supervising eight **pension management companies** managing 30 participation funds and eight transformed funds. The number of planholders in the third pillar of the pension system remained relatively stable. Pension funds' assets rose by almost 8% year on year to CZK 507.7 billion and pension management companies increased their net profit to CZK 1.9 billion. A total of 38 entities holding an investment firm licence, 35 management companies (including two branches of foreign management companies), 156 investment funds with legal personality and 252 mutual funds were subject to the CNB's **capital market** supervision. The CNB was also supervising **bureaux de change licence holders**, mainly in the form of frequent on-site examinations. The CNB also used its supervisory capacity to supervise payment institutions, electronic money institutions and issuers, small-scale payment service providers, investment and insurance intermediaries, consumer credit intermediaries and providers, and handlers of domestic banknotes and coins.

Supervisory activities in the area of compliance with the duties set out in the act governing **consumer protection** were an integral part of the CNB's supervisory work. These activities were focused mainly on checking whether unfair commercial practices had been used against consumers and whether financial market entities had complied with the duty to treat customers with professional care, and on detecting any shortcomings in informing consumers.

The CNB's activities in the area of financial market regulation and international cooperation are also closely linked with the conduct of supervision. As regards **regulation**, the CNB was involved in the preparation of numerous important legal rules concerning the domestic financial market. In this respect, it is worth mentioning the CNB's involvement in the preparation of amendments to the Act on Banks and the Act on Credit Unions, amendments to laws in the area of regulation of business activities on the capital market and an amendment to the Act on Bureau de Change Activity. The CNB also participated in the preparation of the Act on Insurance and Reinsurance Distribution and legislative proposals to strengthen the resilience of the EU banking sector.

Turning to **international cooperation**, the CNB was actively involved in the activities of European and international institutions engaged in financial market regulation and supervision. The CNB is part of the European System of Financial Supervision and, within it, works in cooperation with the European Systemic Risk Board and the European supervisory authorities (the EBA, EIOPA and ESMA). Ongoing cooperation with other national supervisory authorities of EU Member States, which took place primarily within supervisory colleges for banking and insurance groups, was of great importance.

The **Financial Market Supervision Report**, which the CNB has published since 2006,¹ consists of two main parts. However, these parts differ in form compared with previous years. Part A presents information on the conduct of supervision by the CNB broken down by sector. This key part also contains a brief overview of developments in the domestic financial market and the regulatory framework. In addition, it reports on the CNB's main activities in the area of international

¹ The Financial Market Supervision Reports for 2006–2018 are published on the CNB website (www.cnb.cz > *Supervision, regulation* > *Aggregate information on the financial sector* > *Financial Market Supervision Reports*).

supervisory cooperation. Part B complements the Report with selected statistical data and appendices relating to financial market regulation and supervision.

To conclude, it should be noted that the CNB adapts its supervisory priorities to current risks having an impact on the real economy and financial markets, taking into account the applicable legal framework. Based on current developments, the CNB adopts measures, performs supervisory analyses in off-site surveillance, communicates with supervised entities and individual associations, and works in close cooperation with the European supervisory authorities. This Report describes the situation as of 31 December 2019.

In 2020, however, the entire domestic financial market has been strongly affected by the COVID-19 pandemic, which has substantially changed the CNB's supervisory priorities. We believe that our appropriate supervisory strategy made an important contribution to the fact that the domestic financial sector entered this uncertain period in very good shape; the sector is well capitalised, has sufficient liquidity and is relatively stable. Given the seriousness of recent developments, the CNB has adopted a series of measures to mitigate the impacts of the pandemic, including supervisory measures. Based on an assessment of the current situation, it is ready to respond appropriately with further measures in the supervisory area if necessary. The supervisory priorities and individual measures adopted in connection with the pandemic will be summarised in the Report for 2020.²

On behalf of the Czech National Bank



Jiří Rusnok, Governor

² The CNB's measures relating to the COVID-19 pandemic are published on an ongoing basis on the CNB website (www.cnb.cz > *About the CNB* > *CNB versus coronavirus*).

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CORE SUPERVISORY ACTIVITIES IN 2019

The CNB performed the role of integrated financial market supervisory authority in 2019 based on powers conferred on it by Act No. 6/1993 Coll., on the Czech National Bank. In addition to the conduct of supervision *per se*, it carried on other activities in this role. These included licensing, approval and authorisation work, the imposition of penalties and remedial measures where shortcomings had been detected, and activities in the fields of regulation and international cooperation.

The CNB's core activities in the area of financial market supervision in 2019 were as follows:

- In the **credit institutions** sector, supervision was focused on assessing the quality of governance systems, especially in the areas of risk management, credit portfolio quality, sufficient provisioning (primarily as regards the switch to IFRS 9) and capital adequacy in the context of the overall financial condition of credit institutions. With regard to the ongoing digitalisation of financial services, increased attention was paid to the resilience of financial institutions to cyber risks, both in examinations and in a detailed IS/IT risk assessment under the Supervisory Review and Evaluation Process (SREP). The CNB paid considerable attention to evaluating the efficiency and effectiveness of measures against money laundering and terrorist financing and to identifying related risks.
- In addition, the CNB conducted its yearly **stress tests** of the domestic banking sector, which again demonstrated the sector's resilience to potential adverse developments. As regards **conduct of business and consumer protection**, the CNB concentrated on the provision of information to clients, communication with clients, procedures for entering into and terminating contractual relationships with clients, processes for requesting information from clients, and proactive detection of unfair business practices of credit institutions.
- When conducting supervision in the **insurance sector**, the CNB focused on evaluating the risk profiles of supervised entities and changes thereto, insurance companies' financial condition and performance, and monitoring their capital and solvency positions. It also paid due attention to the configuration and quality of insurance companies' governance systems, including their internal control systems, in relation to the requirements and duties stemming from new regulations (in particular the IDD directive³ and the PRIIPs regulation⁴ and their implementing measures), which significantly tighten the requirements applying to conduct of business and consumer protection and to the creation and distribution of insurance products (product governance).
- Another round of **stress tests** of selected insurance companies took place in 2019. These confirmed that the sector was sufficiently resilient to potential negative developments in the macroeconomic and financial environment. In the area of **conduct of business and consumer protection**, the CNB placed an emphasis on prevention at the pre-trade stage, especially in product design, and on transparency in product marketing and related communication with consumers.
- In the **pension management companies (PMCs) and retirement funds** sector, supervisors focused on assessing the capital adequacy and capital management systems of PMCs and the ability of transformed funds to cover their liabilities with assets. The CNB also assessed the quality of risk management systems and compliance with the rules for the management of assets of funds managed by PMCs.
- As regards **investment firms**, the CNB focused on checking compliance with the requirements arising from the implementation of the MiFID II⁵ into domestic law. To this end, the CNB conducted, among other

³ Directive 2016/97/EU of the European Parliament and of the Council on insurance distribution.

⁴ Regulation (EU) No 1286/2014 of the European Parliament and of the Council on key information documents for packaged retail and insurance-based investment products (PRIIPs).

⁵ Directive of the European Parliament and of the Council 2014/65/EU on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU.

things, thematic surveys to assess appropriateness and suitability in the provision of investment services to retail clients and the provision of information in the execution of transactions under the best conditions with the aim of evaluating the risk of insufficient professional care.

- With regard to **management companies and investment funds**, supervisors focused on mapping the liquidity management situation in order to check compliance with the statutory requirements in practice. The CNB also reviewed and modified regulatory statements to take account of the legislation in force.
- Supervision of **entities carrying on bureau de change activity** mainly involved checking compliance with new rules introduced with effect from 1 April 2019 by an amendment to the Act on Bureau de Change Activity.⁶ In this respect, the CNB conducted a number of thematic surveys in the year under review.
- The CNB's supervisory activities in the **non-bank payment service providers** sector mainly involved verifying the functionality of operational and security risk management systems and their compliance with the new requirements arising from PSD II.⁷
- With regard to **consumer credit providers**, the CNB published an opinion regarding the actually incurred costs that can be claimed from consumers in connection with early repayment of consumer credit for house purchase. In cases where its thematic surveys detected insufficient implementation of the opinion, the CNB sought remedy of this shortcoming.
- As regards **retail distributors**, the CNB paid attention to compliance with the requirements arising from the transposition of IDD and MiFID II, focusing above all on the distribution of investment life insurance with non-standard or risk elements.
- In the area of **securities and regulated markets**, the requirements of relevant new EU legislation, in particular the new regime for approving securities prospectuses, were implemented into the CNB's decision-making and supervisory activities.⁸ Exemptions from the trade repository reporting requirements for non-financial groups pursuant to Article 9(1) of EMIR were another new area of activity.
- As regards **authorisation activities**, the number of applications for authorisations under PSD II remains elevated. The high number of applications was a market reaction to the legal framework that took effect in August 2018. Additionally, the CNB in cooperation with the Ministry of Finance in August 2019 completed the project to create a set of examination questions for insurance intermediaries. At the same time, registrations in this sector were converted into new authorisations pursuant to the Act on Insurance and Reinsurance Distribution.⁹
- As part of its **enforcement activities**, the CNB dealt with many cases of payment institutions, small-scale payment service providers and small-scale electronic money issuers that did not meet the conditions for carrying on business pursuant to the Payment System Act.¹⁰ The CNB also dealt with offences under the amended Act on Bureau de Change Activity and started to issue penalties for offences under the Act on Insurance and Reinsurance Distribution, which took effect on 1 December 2018.

⁶ Act No. 277/2013 Coll., on Bureau de Change Activity, as amended.

⁷ Directive (EU) 2015/2366 of the European Parliament and of the Council on payment services in the internal market.

⁸ The new prospectus approval regime relates primarily to the coming into effect of Regulation (EU) 2017/1129 on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market.

⁹ Act No. 170/2018 Coll., on Insurance and Reinsurance Distribution, as amended.

¹⁰ Act No. 370/2017 Coll., on Payment Systems, as amended.

Part A — Financial market supervision

I. BRIEF OVERVIEW OF THE FINANCIAL MARKET IN 2019

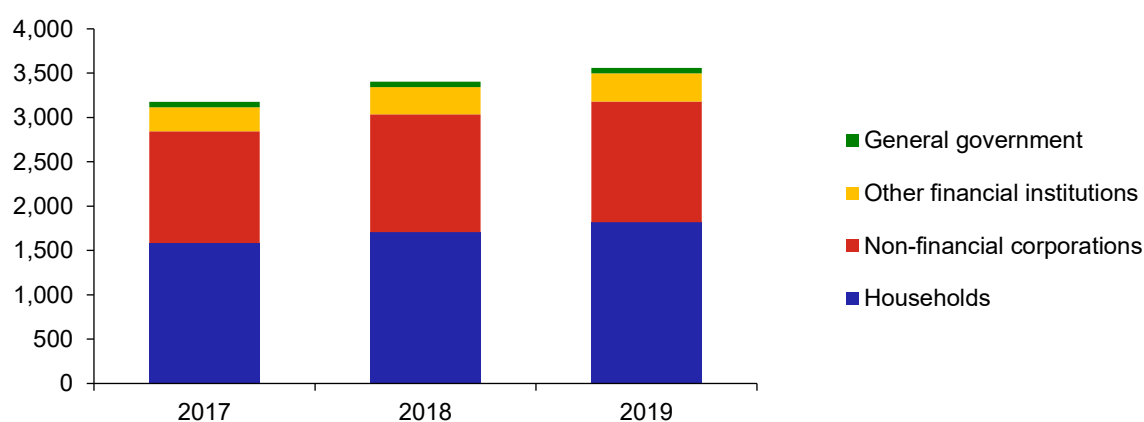
Banks' balance sheets and client loans grew at a slower pace

The banking sector's total assets rose by 3.6% year on year to CZK 7,544.8 billion at the end of 2019. Loans and receivables (net of provisions), which are the most important component of the sector's assets, totalled CZK 6,018.9 billion. They increased by CZK 279.1 billion, or 4.9%, year on year.

Loans to and receivables from central banks, which increased by CZK 141.6 billion to CZK 2,277 billion, accounted for about one-half of the increase. Client loans¹¹ also rose in year-on-year terms – by 4.6% to CZK 3,560.5 billion. Under client loans, loans to households recorded the biggest increase (6.7%), reaching CZK 1,819.2 billion at the end of 2019. Loans to non-financial corporations rose by 2.1% to CZK 1,359.6 billion. By contrast, loans to and receivables from credit institutions dropped by almost 10% to CZK 181.5 billion.

Chart A.1 Selected client loan aggregates

(in CZK billions; as of end of year)



The structure of banking sector liabilities remained stable

The liabilities of the banking sector grew by 3.3% to CZK 6,923.2 billion. Deposits were the dominant liabilities class, accounting for 77.3% of the sector's balance sheet total. Client deposits¹² were the biggest contributor to total deposits, reaching CZK 4,870.4 billion at the end of 2019, CZK 296.7 billion more than a year earlier. Equity recorded a larger relative increase of 7.8% to CZK 621.7 billion. Neither the structure of liabilities nor the structure of client deposits saw any significant change in 2019.

The liquidity position of the banking sector remained at a good level

At 136.8%, the ratio of aggregate client deposits to the total value of client loans was relatively high at the end of 2019. An excess of client deposits over loans thus remained a long-standing positive characteristic feature of the domestic banking sector's liquidity. The share of quick assets in the sector's total assets was also solid at 40.7%. Turning to the structure of quick assets, loans to and receivables from central banks remained the largest component, accounting for 74.2% of quick assets.

The share of non-performing exposures continued to fall in 2019

Non-performing client exposures continued to show a downward trend in 2019, as did their share in total client exposures. The total volume of non-performing client exposures (at gross value, i.e. excluding allowances) dropped by CZK 23.6 billion, i.e. by about one-fifth, year on year to CZK 93.1 billion. This drop was largely due to non-performing exposures in the non-financial corporations segment, which fell by CZK 16.9 billion. The

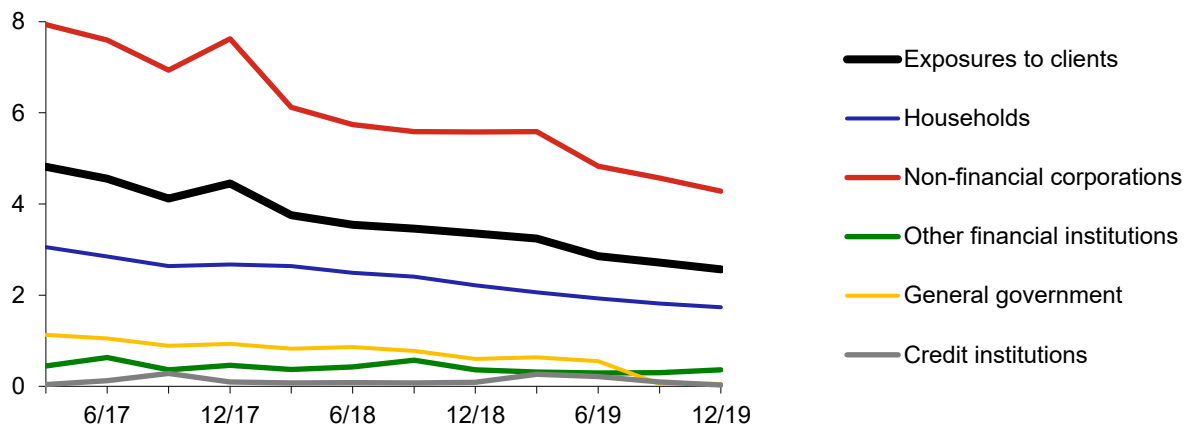
¹¹ Client loans represent the aggregate of loans to and receivables from general government, households, non-financial corporations and other financial institutions.

¹² Client deposits are deposits accepted from general government, households, non-financial corporations and other financial institutions.

drop in non-performing client exposures was reflected in a decrease in the share of these exposures in total client exposures. At the end of 2019, this share was down by 0.8 percentage point year on year to 2.6%.

Chart A.2 Non-performing exposures

(in % of bank credit exposures to the given sector)



Banks posted a record-high profit

The total after-tax profit of the banking sector in 2019 was CZK 90.9 billion, a rise of 11.6% on a year earlier. The biggest contributor to the growth in profit was net interest income, which increased by 12% to CZK 145.3 billion compared with 2018. Administrative expenses rose by 1.2% year on year to CZK 77.7 billion. The large majority of banking institutions posted a net profit. Six foreign bank branches with a marginal total share in the sector's total assets recorded losses. The substantial rise in net profit led to an increase in return on equity (RoE),¹³ which reached 18.1%, up by 0.6 percentage point compared with the end of 2018.

The banking sector increased its capitalisation

During 2019, the regulatory capital of the domestic banking sector¹⁴ rose by CZK 46.4 billion to CZK 539.9 billion, Tier 1 capital being the dominant component. The total capital ratio¹⁵ of the domestic banking sector increased by 1.7 percentage points year on year to 21.3%.

The domestic banking sector was reliably compliant with the capital requirements as defined by CRD IV/CRR.¹⁶ All banks also safely exceeded the prescribed minimum total capital ratio of 8% and Tier 1 capital ratio of 6%.

¹³ RoE is defined as the ratio of net profit to Tier 1 capital. Tier 1 is the highest quality and, for banks in the Czech Republic, also the dominant part of regulatory capital. It consists mostly of registered capital, retained earnings and mandatory reserve funds.

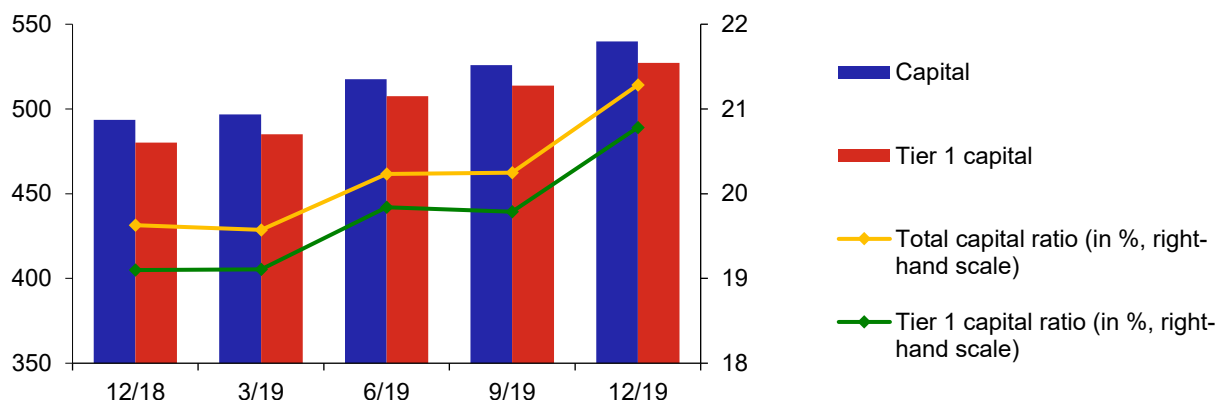
¹⁴ In this case, foreign bank branches operating in the Czech Republic are excluded from the Czech banking sector, as the risks to their business activities are covered by the regulatory capital of their head offices. The assessment of capital adequacy falls to the competent foreign supervisory authority.

¹⁵ The capital ratio is defined as the ratio of the relevant capital to total risk exposures in per cent.

¹⁶ The overall capital requirement consists of the regulatory minimum capital (Pillar 1), the capital requirement set under the supervisory review and evaluation process (Pillar 2) and the requirements for capital buffers.

Chart A.3 Capital and capital ratios of the domestic banking sector

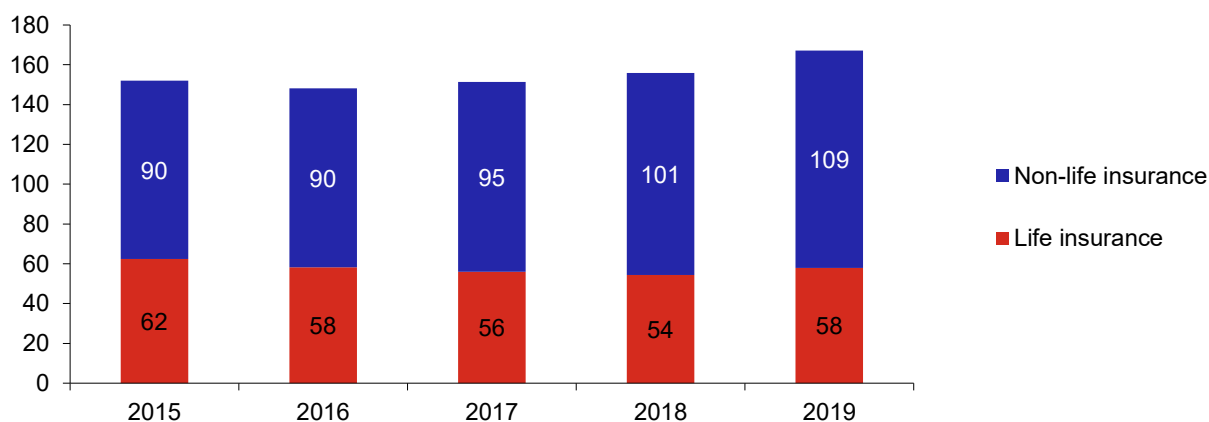
(left-hand scale in CZK billions; right-hand scale in %)

**In the insurance sector, gross premiums written increased in both the life and non-life segments**

Gross premiums written totalled CZK 167.1 billion at the end of 2019, up by 7.3% year on year. Gross premiums written rose more substantially in the non-life insurance segment – by 7.6% to CZK 109.2 billion. Premiums written in life insurance increased for the first time since 2013. The increase of 6.5% to CZK 58 billion brought premiums written in life insurance back to their 2016 level. At the end of 2019, premiums in non-life insurance accounted for 65.3% of total premiums.

Chart A.4 Gross premiums written

(in CZK billions; premiums written by domestic insurance companies and branches of foreign insurance companies)

**The investment structure of domestic insurance companies was affected by mergers¹⁷**

The investments of domestic insurance companies fell by CZK 38.7 billion year on year to CZK 285.8 billion. Domestic insurance companies' participating interests declined by more than one-quarter to CZK 31.5 billion owing to mergers. Investments in debt securities decreased by 6.6% year on year, but their share in total investments nevertheless rose to 72.2%. Funds invested in shares and other variable-yield securities meanwhile grew by CZK 3.2 billion to CZK 24.8 billion. Their share in total investment thus increased by 2 percentage points to 8.7%.

¹⁷ In 2019, consent was granted to the transfer of the insurance portfolios of Generali pojišťovna, a.s., and Česká pojišťovna ZDRAVÍ, a.s., to Česká pojišťovna a.s., which then changed its name to Generali Česká pojišťovna, a.s. The same year saw the merger of Aegon pojišťovna, a.s., with the successor Dutch insurance company Nationale-Nederlanden Levensverzekering Maatschappij N. V.

The profitability of domestic insurance companies was affected by capitalisation of future profits

The net profit of the domestic insurance sector (including branches of foreign insurance companies) was CZK 18.4 billion in 2019, a year-on-year increase of almost one-third. The sizeable year-on-year increase in net profit was due primarily to an extraordinary transaction consisting in the transfer of an insurance portfolio in connection with a merger, and related capitalisation of future profits. Adjusted for this transaction, the sector's net profit declined year on year.

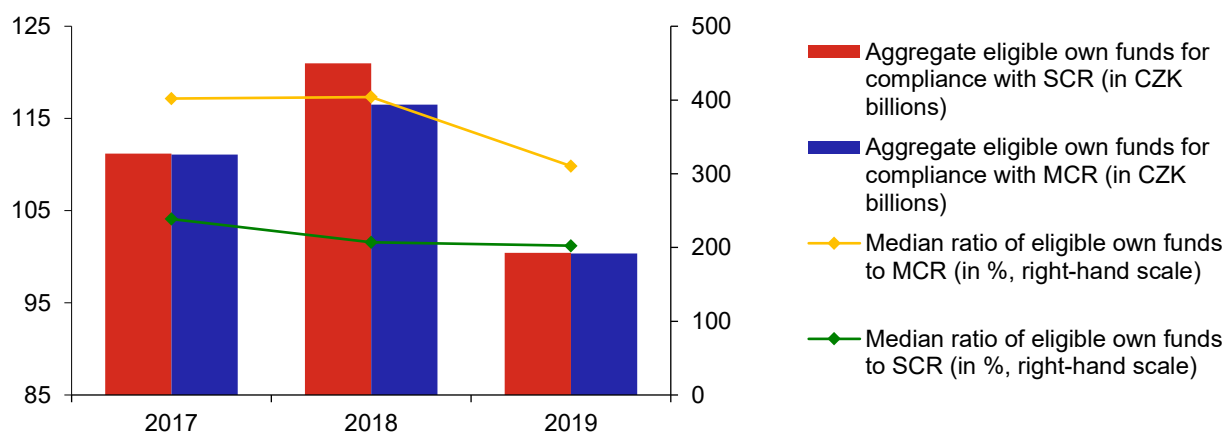
The technical account for non-life insurance¹⁸ recorded a profit of CZK 7 billion, down by CZK 0.7 billion year on year, mainly as a result of higher claim settlement costs. By contrast, the technical account for life insurance ended 2019 in a profit of CZK 10.1 billion, up by CZK 0.7 billion year on year.

The domestic insurance sector remained well capitalised

At the end of 2019, domestic insurance companies were sufficiently capitalised in terms of the Solvency II¹⁹ capital requirements. No domestic insurance company reported a ratio of eligible own funds to the solvency capital requirement (SCR) of less than 100% at the end of 2019. The median ratio of eligible own funds to the SCR was 202%.

Chart A.5 Capital and compliance with the Solvency II capital requirements

(in CZK billions; in %; as of end of year)



The number of planholders in the third pension pillar stopped declining after five years

Pension management companies were managing assets totalling CZK 507.7 billion in their funds at the end of 2019, up by 8% year on year, a similar relative increase as in previous years. This increase was driven mainly by a surplus on planholders' contributions, which amounted to CZK 36.5 billion. Following several years of slow decline in the number of planholders in the third pension pillar, this trend came to a halt. At the end of 2019, a total of 4.44 million planholders were registered, i.e. 1,068 more than a year earlier.

Pension fund assets were allocated primarily in debt securities (72.8%) and deposits (22.9%), mainly because of a high share of planholders involved in saving in transformed funds with a guarantee of non-negative returns. Planholders' funds were also invested in unit certificates (2.5%) and shares (1%). Pension management companies increased their aggregate profit by CZK 0.5 billion to CZK 1.9 billion, mainly because of higher fee and commission income. The ratio of capital to capital requirements rose by 14 percentage points to 167.8% last year.

¹⁸ The profit and loss account of insurance companies is subdivided by type of business into a technical account for non-life insurance, a technical account for life insurance and a non-technical account, which comprises income and expenses that cannot be assigned to life or non-life insurance.

¹⁹ 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 share of deposits in investment fund portfolios increased

The total assets managed in domestic investment funds amounted to CZK 611.2 billion at the year-end, up by CZK 88.5 billion year on year. Growth in assets was recorded both in collective investment funds (CZK 70.7 billion) and in funds for qualified investors (CZK 17.8 billion). Bond funds recorded a sizeable CZK 47.4 billion year-on-year increase in assets. This was due, among other things, to the conversion of the only domestic money market fund into a bond fund. As of the end of the year, the assets of collective investment funds were invested mainly in equity securities (40.1%). Other items included debt securities (28.4%) and deposits (22.1%). The share of deposits rose by 5.1 percentage points compared with a year earlier. This was offset by a decline in the shares of equity securities of 2.9 percentage points and bonds of 1.7 percentage points. The share of other assets fell by 0.5 percentage point.

Total exchange trading in securities dropped despite a slight increase in PSE market capitalisation

Following a decline on the Czech stock market in 2018, the Prague Stock Exchange (PSE) saw a turnaround in 2019. Owing to prevailing positive market sentiment during the year, the PX index closed 2019 at 1,115.6 points, up by 13.1% compared with the opening level at the start of the year.

Despite a slight increase in PSE market capitalisation (3.7%), share trading fell by 23.7% year on year in 2019. The average daily trading volume on the most important Czech exchange decreased from CZK 572.5 million at the end of 2018 to CZK 435.1 million in 2019.

II. REGULATORY FRAMEWORK

II.1 SELECTED REGULATORY CHANGES IN THE EU IN 2019

In 2019, as in previous years, new rules in the area of financial market regulation were prepared at the EU level. This work included in particular the preparation of directives and regulations of the European Parliament and of the Council and implementing regulations of the European Commission. When discussing legislative proposals, the CNB worked closely with the Ministry of Finance on the formulation of the Czech Republic's positions and the preparation of instructions for Czech representatives at the meetings of EU Council working groups, which are also attended by CNB representatives as observers in some cases. The CNB also prepared and presented a number of non-papers on selected regulatory topics. Within the European supervisory authorities (the EBA, EIOPA and ESMA), the CNB was involved in the preparation of draft technical standards as well as guidelines and other methodological and interpretative documents.

Major legislative changes in the EU in 2019

Package to reduce risk in the banking sector

The legislative proposals to reduce risk in the EU banking sector published by the European Commission in November 2016 were adopted in 2019. They include (i) Regulation (EU) 2019/876 amending Regulation (EU) No 575/2013 (**CRR II**), (ii) Directive (EU) 2019/878 amending Directive 2013/36/EU (**CRD V**), (iii) Directive (EU) 2019/879 amending Directive 2014/59/EU (**BRRD II**) and (iv) Regulation (EU) 2019/877 amending Regulation (EU) No 806/2014 (**SRMR II**). A rather broad revision was adopted in CRD V/CRR II, covering prudential consolidation, large exposures, equity exposures in funds, the leverage ratio, capital buffers for systemic risk, stable funding, Pillar 2 guidelines and remuneration. BRRD II aims mainly to introduce the international standard for own funds and eligible liabilities (the TLAC standard) into EU legislation and to adjust the related MREL calibration within banking groups.

Directive and regulation on prudential rules for investment firms

The draft directive and regulation on investment firms and related amendments to the directive and regulation on credit institutions (CRD/CRR) and the directive and regulation on markets in financial instruments (MiFID/MiFIR) published by the European Commission in December 2017 were also adopted in 2019. The aim is to create a regulatory framework that will better correspond to the risks faced by investment firms and to implement the principle of proportionality. In terms of size and importance, investment firms will be divided into three categories. Firms falling under category 1 will be required to obtain authorisation under CRD/CRR, whereas firms in category 3 will enjoy significant exemptions from the prudential requirements. Regulation (EU) 2019/2033 on the prudential requirements of investment firms will take effect on 26 June 2021. Directive (EU) 2019/2034 on the prudential supervision of investment firms will have to be transposed by the same date.

Amendments to the regulations on the European supervisory authorities (the ESA review)

Regulation (EU) 2019/2175 amending Regulation (EU) No 1093/2010 establishing a European Supervisory Authority (European Banking Authority), Regulation (EU) No 1094/2010 establishing a European Supervisory Authority (European Insurance and Occupational Pensions Authority), Regulation (EU) No 1095/2010 establishing a European Supervisory Authority (European Securities and Markets Authority), Regulation (EU) No 600/2014 on markets in financial instruments, Regulation (EU) 2016/1011 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds, and Regulation (EU) 2015/847 on information accompanying transfers of funds, was adopted at the end of 2019. This package modifies and strengthens the powers of the European supervisory authorities (ESAs).

Amendment to the directive on the taking-up and pursuit of the business of insurance and reinsurance (Solvency II)

In connection with the changes to the powers of the European supervisory authorities (the ESA review), Directive 2019/2177 amending Directive 2009/138/EC on the taking-up and pursuit of the business of insurance and reinsurance (Solvency II) was adopted in 2019. It changes one of the conditions for volatility adjustment to risk-free interest rates for each relevant country. The amendment also requires supervisory

authorities to inform EIOPA of any applications to use or change an internal model of an insurer or reinsurer. It also adjusts the notification duty of the supervisory authority of the home Member State to the supervisory authority of the host Member State and EIOPA as regards issuing authorisations to insurance companies carrying on material cross-border insurance activities or in the event of deteriorating financial conditions arising from cross-border activities. The amendment also regulates the setting up of collaboration platforms to strengthen the exchange of information and enhance cooperation between supervisors and EIOPA with regard to the carrying on of cross-border insurance activities. These platforms are set up (and later coordinated) by EIOPA at its own initiative or at the request of supervisory authorities. The amendment also sets out the information duties of group supervisors regarding the receipt of an application for the approval of a group internal model (such supervisors must inform not only the other members of the college of supervisors, but also EIOPA).

Amendment to Regulation (EU) 2015/35 supplementing Solvency II

A major amendment to Regulation 2015/35 supplementing Directive 2009/138/EC on the taking-up and pursuit of the business of insurance and reinsurance (Solvency II) was adopted in March 2019. This amendment (“the SCR review”) reflects the experience gained by insurance and reinsurance companies during the first years of application of Solvency II. The methods, assumptions and standard parameters used when calculating the solvency capital requirement of insurance and reinsurance companies using the standard formula were reviewed for correctness and adequacy in 2018. The results of this review, conducted by EIOPA, were then used as a basis for making relevant changes to this European Commission regulation.

Amendment to the regulation on OTC derivatives, central counterparties and trade repositories (EMIR)

Two amendments to Regulation (EU) 648/2012 on OTC derivatives, central counterparties and trade repositories were published in 2019. The first – Regulation (EU) 2019/834 (the EMIR Refit) – focused on reducing administrative burdens and the costs arising from the regulation. In particular, it set clearing thresholds for financial counterparties and cancelled the obligation to report intra-group transactions involving non-financial counterparties. The second amendment – Regulation (EU) 2019/2099 – reacted to the increased concentration of clearing in a relatively small number of central counterparties and the rising cross-border activity of central counterparties. In relation to EU central counterparties, the amendment broadened the powers of supervisory colleges, introduced a categorisation of third-country central counterparties by systemic importance, and established an ESMA committee for the supervision of central counterparties operating in the EU.

Regulation on a pan-European personal pension product (PEPP)

Regulation (EU) 2019/1238 on a pan-European personal pension product (PEPP) entered into force in 2019. This regulation aims to create a standardised supplementary voluntary pan-European pension product, available in all EU Member States, empowering consumers to transfer their pension rights between Member States. The regulation governs the key areas (registration, cross-border provision, portability, distribution, information requirements, supervision, provider switching, the payment accumulation and decumulation phases, investment rules) and assumes the subsequent adoption of regulatory and implementing technical standards.

Regulation on sustainability-related disclosures in the financial services sector

Regulation (EU) 2019/2088 entered into force in December 2019, introducing a wide range of duties for selected financial market participants and financial advisers to disclose sustainability-related information. This includes in particular information on how companies integrate environmental factors, social factors and sustainable governance factors (“ESG factors”) into their risk management processes and remuneration policies and how they provide information about financial products promoted as “sustainable”, and information on the principal adverse impacts of their investment activity on the environment.

Amendment to the PRIPP regulation

The effect of Regulation (EU) No 1286/2014 of the European Parliament and of the Council on key information documents for packaged retail and insurance-based investment products was postponed in respect of collective investment funds in 2019. The obligations imposed by this regulation will apply to collective investment funds from 2022.

Amendment to the regulation on cross-border payments in the Community

An amendment to Regulation (EC) No 924/2009 on cross-border payments in the Community was published in 2019. Under Regulation (EU) 2019/518, the rule that charges levied in respect of cross-border transfers in euro must be the same as the charges levied in respect of corresponding domestic transactions started to apply to non-euro area EU Member States, including the Czech Republic, in mid-2019. Rules enhancing the transparency of currency conversion charges for card transactions and dynamic currency conversion (DCC) services and for internet and mobile banking payments were introduced at the same time. These changes will be implemented during 2020 and 2021.

Selected regulations and directives under preparation in 2019**Regulation on crowdfunding service providers**

A proposal for a regulation on European crowdfunding service providers (ECSPs) for business (crowdfunding regulation) published by the European Commission in March 2019 was under discussion in 2019.

Amendment to the directive on the taking-up and pursuit of the business of insurance and reinsurance (Solvency II)

An extensive review of the directive of the European Parliament and of the Council 2009/138/EC on the taking-up and pursuit of the business of insurance and reinsurance (Solvency II) was carried out in 2019. This “2020 Solvency II review” should be completed in mid-2020 with the provision of EIOPA technical advice to the European Commission, which will subsequently decide on the proposed changes to this directive.

Regulation on the establishment of a framework to facilitate sustainable investment (taxonomy regulation)

At the end of 2019, a political agreement was reached between the Council and the European Parliament on a proposal for a regulation aimed primarily at defining criteria for determining whether economic activity qualifies as (environmentally) “sustainable”. This regulation, which is to form the basis for financial market regulation in the sustainability area, is expected to enter into force during 2020.

II.2 SELECTED REGULATORY CHANGES IN THE CZECH REPUBLIC IN 2019

In 2019, the CNB was involved in amending the legislation forming the regulatory framework for the financial market in the Czech Republic. These amendments arose primarily from the implementation of EU legislation. In the legislative area, the CNB worked with the Czech Ministry of Finance and other state administration bodies on the preparation of new laws and issued decrees related to legislative changes and explanatory and methodological opinions on the application of regulatory requirements pertaining to financial market entities. This section describes the most important legislative changes in the area of financial market regulation.

Major legislative changes in the Czech Republic in 2019**Amendment to the Act on Banks and the Act on Credit Unions**

In 2019, the CNB was actively involved in further preparatory work on an amendment to Act No. 21/1991 Coll., on Banks, and Act No. 87/1995 Coll., on Credit Unions. The government submitted the amendment to the Chamber of Deputies for debate in July 2019. An important material change is strengthened protection of bank customers and enhanced financial stability in the event of conversion or disposal of a bank’s business or parts thereof. Another change aimed at enhancing the stability of the deposit insurance system and simultaneously strengthening depositor protection is the option of covering the operating costs of the Deposit Insurance Fund with extraordinary operational contributions or with a subsidy or repayable financial assistance from the state

budget. Proposals to reduce the administrative burden on market participants include cancellation of the duty requiring banks to submit a list of their shareholders to the CNB before each general meeting and simplification of the procedure to waive the requirement for an audit of the governance system and the procedures for cross-border activities of credit institutions. The amendment also sets rules for qualifying holdings, refines the method for calculating the settlement share in a credit union's assets, and clarifies the legislation in cases of the passage or transfer of membership rights in a credit union, especially as regards the exercise of voting rights.

Another important part of the proposed amendment is that it unifies the conditions for winding up a bank after its licence has been revoked and for appointing or dismissing a liquidator with the legislation on credit unions. The draft also clarifies the effects of a court annulling a decision to revoke a banking licence or a credit union authorisation.

Amendment to the Act on Banks and other regulations (implementation of CRR II/CRD V)

The CNB was involved in the preparation of an amendment to Act No. 21/1992 Coll. on Banks, as amended, and some other acts in the second half of 2019. Besides the Act on Banks, this amendment revises Act No. 87/1995 Coll., on Credit Unions, Act No. 256/2004 Coll., on Capital Market Undertakings, Act No. 6/1993 Coll., on the Czech National Bank and some other laws. The amendment has been submitted mainly due to the need to implement CRD V and CRR II into Czech law. The aim of CRD V and CRR II, and hence of the amendments submitted, is to further enhance the resilience of regulated entities to possible economic shocks and to contribute to the consolidation of the financial system. In connection with the requirements of CRD V, the bill amends some provisions relating to credit institutions' capital requirements. The conditions under which the CNB may impose an additional capital requirement on an institution based on the supervisory review and evaluation process are adjusted and capital guidance is introduced. Further changes concern capital buffers. The procedure for approving some financial holdings and mixed-activity financial holdings is supplemented. A duty to appoint an intermediate parent undertaking is introduced for large groups that include at least two subsidiaries established in the EU where the parent is established in a non-EU country, aimed at facilitating supervision of these institutions and possible resolution.

The CNB will be newly authorised to require banks to change their auditor. Banks, financial holdings and mixed-activity financial holdings will newly have the duty to record data on loans to members of a bank's statutory body, management board and supervisory board and related persons. The CNB will newly be expressly authorised to require an entity subject to its supervision to use a standardised methodology instead of internal models to manage interest rate risk in the investment book if the CNB assesses that its internal system is not satisfactory for risk assessment. The legislative process will continue at the start of 2020 with the submission of the law for interdepartmental comments. The law is proposed to take effect on 29 December 2020. The Ministry of Finance – the submitter of the act – repeatedly consulted with the CNB not only on the structured version of the law, but also on other topics relating to the transposition of CRD V before the law was drafted.

Amendment to the Act on Certain Measures against Money Laundering and Terrorist Financing and related laws

Work continued on the preparation of an amendment to Act 253/2008 Coll., on Certain Measures against Money Laundering and Terrorist Financing, and Act 300/2016 Coll., on the Central Register of Accounts and on the preparation of the Act on the Register of Beneficial Owners. The aim of the proposals is to transpose an amendment of the Anti-Money Laundering Directive and to incorporate the recommendations of the MONEYVAL Committee, which conducted an assessment of the Czech Republic in this area in 2018. Besides numerous technical changes, the proposals include the introduction of an explicit duty to carry out intensified vetting of clients in higher-risk situations, an increase in the maximum penalties applicable, an extension of the data recorded in the Central Register of Accounts, and a clarified definition of beneficial owner. The changes apply to all "obliged entities", i.e. almost all financial market undertakings.

Amendment to the Act on Banks and other laws relating to the SONIA project

The CNB worked with the Ministry of Finance, the Ministry of the Interior and the Financial Analytical Unit on a project initiated by the Czech Banking Association concerning a legislative proposal governing banking

identity for bank clients, whereby clients would be able to use electronic services provided by the state and the private sector. In this context, a group of deputies submitted to the Chamber of Deputies a draft amendment to the Act on Banks and the Act on Certain Measures against Money Laundering and Terrorist Financing in summer 2019. Besides banking identity, the amendment contains some other changes, for example allowing banks to access data in public administration information systems using their own information systems, and expanding and adjusting this existing right for insurance companies.

Amendment to the Recovery and Resolution Act (transposition of BRRD II)

Throughout 2019, the CNB was involved in the preparation of an amendment to Act No. 374/2015 Coll., on Recovery and Resolution. The bill is being prepared in connection with the adoption of an amendment to the European directive setting out a framework for the recovery and resolution of credit institutions (BRRD II), which was published in June 2019. The planned amendment aims mainly at strengthening the bank resolution framework, primarily by implementing the international standard for own funds and liabilities eligible for use in bank resolution (the TLAC standard). The official legislative process was commenced in late 2019 and the amendment is expected to take effect by the end of 2020.

Amendment to the Capital Market Undertakings Act and other regulations

The CNB was involved in the legislative process to amend Act No. 256/2004 Coll., on Capital Market Undertakings and other laws. This amendment mainly contains an adaptation of Regulation (EU) 2017/1129 on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market. Other areas of the amendment include recordings of telephone conversations in the provision of investment services and an amendment to the Act on Bonds reacting to the non-existence of a database of corporate bonds and the limited extent of CNB supervision in the prospectus approval process; the CNB currently evaluates prospectuses only with regard to completeness and does not assess the issuer's economic results or financial condition.

Amendment to the Act on Insurance and Financing of State-Subsidised Exports

An amendment to the Act on Insurance and Financing of State-Subsidised Exports and an amendment to the Act on the Supreme Audit Office and the Act on Budgetary Rules were prepared in 2019. The draft amendment to the Act on Insurance of Exports allows the Export Guarantee and Insurance Corporation (EGAP) to take a share in the Czech Export Bank (ČEB) and obliges these institutions to deposit their funds on accounts subordinated to the Treasury. Among other things, the draft amendment to the Act on Insurance of Exports aims to create legislative room for a new institutional arrangement for state-supported financing and insurance of Czech exports.

In connection with the draft amendment to the Act on Insurance of Exports, the Ministry of Finance also prepared a document titled "Proposal for a variant of a new institutional arrangement of state support of exports". It was then decided at a government meeting to implement the option consisting in the transfer of the state's share in ČEB from the Ministry of Finance to EGAP, i.e. the ownership consolidation of ČEB as a wholly-owned subsidiary of EGAP.

II.3 SELECTED CNB EXPLANATORY OPINIONS AND OTHER SUPERVISORY COMMUNICATIONS

The CNB published a series of explanatory opinions on its website, usually in the form of answers to frequently asked questions (FAQs), supervisory benchmarks and other supervisory communications. Selected CNB opinions and other communications issued in 2019 are listed below.²⁰

²⁰ A more extensive overview of selected explanatory and similar documents is given in part B, section IX. *The CNB's regulatory activities in 2019*. These documents are available on the CNB's website.

The CNB's explanatory opinion relating to the term "costs actually incurred by a creditor in connection with early repayment of consumer credit for house purchase"

The CNB published this opinion on 7 March 2019 in response to an unclear formulation in the Consumer Credit Act which had given rise to repeated questions from the public and providers of consumer credit for house purchase regarding what "actually incurred costs" means in this context. In the CNB's opinion, "actually incurred costs" are objectively necessary and justified costs associated with the early termination of the contract. They thus consist mainly of the provider's administrative expenses. By contrast, an example of a cost whose compensation is not admissible because it has no basis in law is the commission paid by the provider to an intermediary for intermediation of consumer credit for house purchase. Neither the reduction in the provider's interest income following early repayment of consumer credit for house purchase, nor the provider's debt interest costs are costs arising in connection with early repayment of consumer credit for house purchase.

Supervisory Benchmark No. 1/2019 regarding some duties of insurance companies relating mainly to the end of unit-linked life insurance contracts in the event of survival or on the date set as the end of insurance

The CNB published this supervisory benchmark on 28 February 2019 in response to non-transparent provision of information to policy holders about the end of unit-linked life insurance in the event of survival or on the date set in the insurance policy as the end of insurance. The CNB emphasised the need for proper configuration and maintenance of insurance companies' operational systems to reflect current information about the insurance relationship (to ensure, for example, that no premiums are billed for the next insurance period if the life insurance policy has ended). The CNB also emphasises the duty to act in the client's best interest, which encompasses the insurance company's duty to inform policy holders and other beneficiaries of their right to claim in the event of survival or on the date set in the insurance policy as the end of insurance. Also communicated is the expectation that immediately after the insurance contract ends, the policy holder will be demonstrably informed among other things about whether the amounts collected in advance and the actual expenditures from the terminated contract are settled and what the cash value and the value of the policy holder's investment account are.

Supervisory Benchmark No. 3/2019 – References to other documents in an insurance policy and insurance terms and conditions

The CNB published this supervisory benchmark, amending Supervisory Benchmark No. 1/2014, on 6 June 2019 in connection, among other things, with a change in the decision-making practice of the Supreme Court. The supervisory benchmark puts an emphasis on the provision of information to potential clients not only about the insurance terms and conditions, but also about other documents that are merely referred to in the insurance terms and conditions, especially where these other documents contain rules that are necessary to determine claim amounts or that specify insured events, exclusions and so on. Otherwise, the insurance company unreasonably runs the risk of these documents not being applicable in the specific insurance relationship. Given insurance companies' duty to act with professional care, emphasis is also put on the requirement that the manner of determining insurance claim amounts be clear and accurate so that their potential size can be identified.

III. FINANCIAL MARKET SUPERVISION

The Czech National Bank performs supervision that is based on a forward-looking system for assessing the risk profiles and systemic importance of supervised institutions.²¹ This system identifies material risks relating to their activities and quantifies their impact. It also captures systemic risks regarding the behaviour of financial market participants. The CNB determines the intensity of its supervision of individual areas of the financial market and specific institutions on the basis of the outputs of this system. When performing supervision, the CNB assesses compliance with legal requirements in the areas of prudence and conduct of business. These two areas are supervised in a mutually consistent manner, reflecting the links between them.

The CNB applies its supervisory powers by means of off-site and on-site supervision. It selects the form of supervision with due regard to its effectiveness in each specific case. Supervisory work is planned systematically and performed in accordance with internal procedures to ensure internal consistency.

In its supervisory activities, the CNB uses a wide information base encompassing both publicly available and confidential information. The information obtained is subject to both regular and extraordinary (thematic) assessments based on analytical tools developed by the CNB. These tools include regular supervisory stress tests of banks and insurance companies and a system for monitoring financial market transactions. Relevant findings are then communicated to supervised entities. The specific form of such communications depends on the content of the findings. The CNB then performs follow-up checks within a reasonable period of time to ensure that corrective action has been taken.

III.1 SUPERVISION OF CREDIT INSTITUTIONS

The CNB was supervising 24 domestic banks, including five building societies, and nine credit unions as of the end of 2019. To a limited extent, it was supervising 23 branches of foreign banks from EU/EEA countries. Two branches of Chinese banks continued to be active in the Czech Republic. HSBC Bank plc – pobočka Praha and Sumitomo Mitsui Banking Corporation Europe Limited, Prague Branch, terminated their activities. Moravský Peněžní Ústav – spořitelní družstvo – also ceased to exist. On gaining a banking licence, it converted into MPU banka a.s., which newly operates under the business name of Trinity bank a.s.

As in 2018, supervision was concentrated primarily on the quality of governance systems, especially risk management. The CNB also focused, among other things, on the quality of banks' credit portfolios, sufficient provisioning, sufficiency of capital to cover potential losses, and banks' overall performance. Numerous meetings with supervised entities and several on-site examinations were held in this connection in 2019.

A significant increase in the amount of credit provided to households has been observed in recent years, primarily due to almost continuously favourable economic conditions. The CNB therefore continued to perform intensive supervision of such lending in 2019. In doing so, it relied on the supervisory benchmark on the provision of loans to households published at the end of 2017, through which it informed credit institutions of its procedure for assessing the functionality and effectiveness of credit institutions' governance systems for lending to households. Banks' approaches are checked on an ongoing basis by means of off-site surveillance and thematic on-site examinations.

A further round of supervisory stress tests of banks was conducted in 2019. Compared with 2018, the sample of banks was extended to cover the entire banking system in the Czech Republic. The aggregated results of the stress tests confirmed that domestic banks are relatively resilient to potential adverse economic developments.

Under the supervisory review and evaluation process (SREP), the CNB carried out a detailed information and communication technology (ICT) risk assessment based on an evaluation of institutions' governance systems and ICT strategies and an evaluation of their ICT risk exposures and control mechanisms. In 2019, the ICT

²¹ Additional relevant supervision-related information is presented on the CNB website (www.cnb.cz > *Supervision and regulation*).

risk assessment model was updated and the sample of banks assessed was extended. The sample newly covered the entire banking sector and credit union sector.

The CNB paid close attention to AML/CFT supervision, staffing of which was bolstered in 2019. In line with the risk-oriented approach, supervisory procedures focused on the compilation of risk profiles of individual credit institutions. In response to the current risks, the CNB conducted several thematic correspondent surveys. On-site examinations assessed the effectiveness of the system of preventive measures applied by credit institutions, especially in areas assessed as risk sensitive (in particular transaction monitoring, correspondent banking, trade financing and the implementation of international sanctions).

In the area of conduct of business supervision in 2019, the CNB systematically checked compliance with information duties to clients, communication with clients, and compliance with statutory consumer protection duties. Specifically, it conducted thematic surveys to systematically check (i) procedures for payment account mobility/switching at the client's request; (ii) compliance with duties relating to unauthorised payment transactions; (iii) the provision of payment summaries for payment account-related services; (iv) proposed changes in interest rates on deposits on payment accounts; (v) cooperation between banks in the event of erroneously inputted payments; (vi) the opening of accounts by credit institutions for payment institutions and other payment service providers, and (vii) the handling of clients' claims and complaints. The investigations identified numerous shortcomings, with supervisors mostly seeking voluntary remedy. The institutions concerned took corrective action in most cases. However, the CNB continued to examine some cases and opened administrative proceedings against some institutions due to the gravity of the shortcomings identified.

Another integral part of off-site surveillance of credit institutions was supervision of banks' activities as investment fund depositories, which is essential for protecting investors on the capital market. The CNB therefore systematically monitors compliance with depositories' duties arising from national and European legislation. Supervision in the area of investment service provision continued to focus mainly on fulfilment of the obligations arising under MiFID II and MiFIR.

In 2019, the CNB received a total of 872 submissions from the public, 667 of which concerned the provision of payment, investment and deposit services and bureau de change activity, and 205 concerned the provision of consumer credit. The most submissions from the public related to credit institutions' communication with clients and their handling of clients' complaints. The reason for the frequent submissions in this area, logically, is that clients disagree with how the credit institution has handled their complaints. The majority of the submissions were linked with the provision of payment services by credit institutions, for example the execution of payment transactions, unauthorised payment transactions, exchange rates applied in foreign payment transactions, and fees for services and the use of payment cards.²² The number of submissions regarding investment services area decreased by 42% year on year in 2019. A total of 27 submissions from the public were received in the area of investment services. These concerned the execution of clients' orders, the requesting of information from clients, and the provision of information to clients.

In 2019, ten new enforcement proceedings were opened and ten decisions under the Act on Banks became final and conclusive, with three of them imposing fines totalling CZK 12 million. The CNB fined Fair Credit International SE CZK 10 million for accepting funds from the public and for publicly offering bonds for subscription without publishing a prospectus. mBank S.A. was fined CZK 1 million for breach of banking secrecy and RAMFIN Holding a.s. was fined CZK 1 million for violating the ban on accepting deposits from the public. One decision imposed remedial measures (including an additional capital requirement) on NEY spořitelní družstvo, and proceedings were discontinued in six cases. One decision imposing a fine of CZK 500,000 on a credit institution under the Anti-Money Laundering Act²³ became final and conclusive.

²² The high frequency of submissions in this area can be attributed primarily to the fact that the provision of payment services is one of banks' main activities and is experienced by clients on a daily basis.

²³ Act No. 253/2008 Coll., on Certain Measures Against Money Laundering and Terrorist Financing, as amended.

Risk factors going forward and supervisory priorities in the period ahead²⁴

The Czech banking sector was sound overall in 2019, as evidenced by its consistently good economic results and strong capital and liquidity position and by the results of the regular supervisory stress tests of banks. However, some of the risks that determined the priorities set in 2019 for the period ahead persisted. One of the most significant is cyber security risk.

Banking is one of the most attractive economic sectors for cyber criminals. Services and products provided through digital channels continue to develop dynamically, further increasing the degree of openness of banks' information systems. In this context, the risk exposure is continuing to move from manual to automated activities, and vulnerabilities and potential cyber threats to the information technology used by financial institutions are changing as well. The efforts to respond to the latest trends and innovations in a highly competitive environment should thus be accompanied by efforts to improve cyber security. The CNB therefore ranks cyber security among its high-priority areas. This is in part due to the clear professionalisation of gangs of attackers (not only in the financial sector), which now have considerable financial, technical and human resources and may take various forms and have various motives. Their interest may not be limited to stealing money, but may also include extortion, politically motivated attacks and various other targets. Attackers' harmful activities can render financial services inaccessible to clients, damage the reputation of the financial sector and cause financial losses.

Certain differences in cyber risk management were identified among financial institutions in the period under review as regards the degree of attention paid to the development of IT risk management processes, relevant security instruments and expert staffing. Institutions have recently faced a relative shortage of IT experts in general and information security experts in particular. Some institutions still have shortcomings in the effectiveness of IT risk management, often associated with insufficient automation of processes in the field of protection against cyber threats. Institutions should therefore continue to focus their efforts on developing protection of information systems against advanced cyber attacks, enhancing security monitoring and making more effective use of penetration tests.

Electronic banking underwent major changes in 2019 caused by the opening of banking interfaces to further payment service providers. Banks and other payment service providers brought their information systems into line with the regulatory requirements, and these technologies became the basis for the further development of financial services. Given the expected development of new electronic banking services, the implementation of PSD II will remain a supervisory priority.

In 2019, the CNB defined risk areas in the area of conduct of business supervision for 2020. These relate mostly to new legislation and will be examined in more detail in thematic surveys. Examples include (i) the use of strong customer authentication in payment transactions and in other cases required by law; (ii) the charging of equal fees for domestic and SEPA payments within the EU; (iii) the provision of exchange rate information before ATM withdrawals or card payments at electronic payment terminals; (iv) the termination of master agreements on payment services, and (v) the amounts of interbank fees for card payments. Supervision in the investment services area will focus on compliance with information duties to clients under MiFIR.

III.2 SUPERVISION OF INSURANCE COMPANIES

The CNB was supervising 27 domestic insurance companies, one reinsurance company and, to a defined extent, the Czech Insurers' Bureau and the Export Guarantee and Insurance Corporation as of the end of 2019. To a limited extent, it was also supervising 20 branches of foreign insurance companies, all of them based in EEA countries.

The branch AEGON Hungary Closed Company Ltd. closed down and Austria's Merkur Versicherung Aktiengesellschaft – Merkur pojišťovna established an organisational unit in the Czech Republic. The CNB

²⁴ The entire domestic financial market has been significantly affected in 2020 by the COVID-19 pandemic. However, the supervisory priorities and the measures taken in connection with developments in 2020 are not covered by this report, which describes the situation as of 31 December 2019. The CNB's pandemic-related supervisory activities will be described in the 2020 report.

granted a licence to a new life insurance company, Simplea pojišťovna, a.s. It also granted approval to the transfer of the insurance portfolios of Generali pojišťovna, a.s., and Česká pojišťovna ZDRAVÍ, a.s., to Česká pojišťovna a.s., which then changed its name to Generali Česká pojišťovna, a.s. Another significant event in 2019 was the merger of Aegon pojišťovna, a.s., with the successor Dutch insurance company Nationale-Nederlanden Levensverzekering Maatschappij N. V., as a result of which the Czech insurance company ceased to exist.

In 2019, the supervisory review process (SRP) in the area of supervision of insurance companies focused on analysing risk profiles and changes thereto, assessing insurance companies' financial condition, monitoring their capital and solvency positions, and, for the first time, comprehensively evaluating compliance with the rules of conduct to reflect the available supervisory findings. Another key element of the SRP is assessing the configuration and quality of insurance companies' internal governance systems, with an emphasis on robust risk management systems. The standard supervisory tools also include ORSA analysis²⁵ of reports submitted by insurance companies.

Another round of stress tests of selected insurance companies was conducted in 2019. The aggregate results of the stress tests confirmed that the sector was sufficiently resilient to potential adverse developments in the macroeconomic and financial environment and the materialisation of some insurance risks. The sector as a whole was able to absorb relatively significant changes in risk factors defined in the adverse scenario.

The CNB systematically monitors and evaluates the financial condition, solvency situation and performance of the supervised insurance companies, including the profitability of key insurance sectors, using quantitative and qualitative information submitted by insurance companies in the course of regular regulatory reporting, supplemented by further communication with individual companies. The CNB also continuously monitors organisational changes in insurance companies and evaluates their impact on the companies' governance systems. As regards outsourcing (including cases of intra-group outsourcing), the CNB evaluates the scope and nature of externally provided activities, putting an emphasis on the retention of strategic decision-making in insurance companies and on their ability to ensure insurance business continuity and check the quality of services provided.

The CNB has long focused on monitoring the risks associated with the quality of asset and liability management in insurance companies. One source of information on the degree of asset-liability matching and the sensitivity of individual insurance companies to a persisting environment of low investment returns is the CNB's stress testing.

The situation on the third-party vehicle liability insurance market continued to require increased supervisory attention in 2019. The CNB therefore continued its activities in the area of premium sufficiency management for this insurance. It performed supervisory analyses of information regarding compliance with the requirements for an effective premium sufficiency management system, ensuring that claims arising from this type of insurance can be settled any time, and of selected quantitative information. The results of these risk analyses are a key input for the planning and taking of relevant supervisory actions in relation to individual insurance companies and at the level of the entire insurance market in this segment. As regards internal premium sufficiency management systems, insurance companies' internal governance processes are gradually being modified and streamlined. Some measures are being adopted by insurance companies in response to supervisory findings and remedial measures imposed. Gradual stabilisation as regards premium sufficiency was thus observed during the period under review, when the CNB devoted intensive market-wide efforts to this issue.

In 2019, supervision of insurance companies in the areas of conduct of business and consumer protection took into account the changes made to the legal regulation of insurance distribution.²⁶ The significant changes compared with the previous legislation include increased information duties of insurance companies, extended penalties for unlawful conduct and, in particular, completely new requirements to safeguard the quality and

²⁵ Own Risk and Solvency Assessment, which insurance and reinsurance companies must perform under Pillar 2 of Solvency II.

²⁶ Act No. 170/2018 Coll., on Insurance and Reinsurance Distribution, as amended.

suitability of insurance products for consumers (as opposed to the economic benefits of products, as previously accentuated by insurance companies). In particular, there are new rules for the creation, distribution and review of insurance products (product governance) and rules and limits applying to offering of the possibility of becoming an insured person pursuant to Article 4 of the Act on Insurance and Reinsurance Distribution.

The CNB systematically conducted off-site and on-site examinations to eliminate errors of a systemic nature in insurance companies' activities, taking into account the new regulatory requirements. In the area of product governance, for example, its remedial measures included making the definition of the target market for insurance products consistent with the characteristics and nature of those products. As regards distributors that offer clients the possibility of acceding to an insurance contract pursuant to Article 4 of the Insurance and Reinsurance Distribution Act, the CNB required, among other things, the introduction of control mechanisms and consistent supervision of these distributors.²⁷

The CNB continued to work in cooperation with the European supervisory authority EIOPA, which is making great efforts to achieve supervisory convergence in the conduct of business and consumer protection areas and is emphasising the prevention of consumer harm in the initial phase of the product cycle, i.e. during product design, in the distribution process and in selling practice. The CNB was actively involved in EIOPA's ever-growing initiatives consisting in the collection and evaluation of qualitative and quantitative data (regarding, for example, consumer trends), coordinated supervision of insurance companies operating across the EU or in a particular area of insurance business, and also in activities related to the proper implementation of European regulations.²⁸

The CNB also took an active part in EIOPA's working groups. In 2019, EIOPA examined (in a country visit) the CNB's conduct of business supervision. EIOPA's representatives positively assessed the CNB's supervisory processes and conduct of business procedures. The two sides expressed an interest in sharing supervisory know-how and also discussed issues to be addressed going forward (including monitoring and assessment of business models with regard to conduct of business, and of the suitability of products for clients, including value for money for clients)

The CNB continued to follow the trend of proactive supervision in 2019. It conducted thematic surveys focusing mainly on (i) consumer protection in travel insurance with regard to the identification of causes of harm that consumers may suffer, (ii) rules and processes relating to product governance, (iii) the implementation of the requirement for a standardised insurance product information document (IPID) for non-life insurance products, particularly as regards its formalities, content and accessibility to potential clients, and (iv) the taking on board of the decision-making practices of the Financial Arbitrator and courts, including in risk management, by insurance companies. Based on the findings of the thematic surveys, the CNB required insurance companies to take suitable corrective action or, where appropriate, issued supervisory benchmarks in order to harmonise practices on the market.²⁹ The benchmarks are published on the CNB website.

The CNB received 570 submissions from the public in the area of supervision of insurance companies in 2019. As regards product categories, the most submissions from the public concerned motor insurance (41%), in particular motor third-party liability insurance. They were followed by submissions related to life insurance and property insurance. A large proportion (more than 50%) of the submissions from the public expressed dissatisfaction with insurance companies' activities in dealing with claims, the most common reasons given being disagreement with claim amounts, claim rejections and reasons for claim amounts, loss adjustment delays, and insufficient communication by insurance companies.

The Insurance Act does not permit the publication of specific penalty decisions. However, it can be disclosed that five new enforcement proceedings were opened in the area of supervision of insurance companies in

²⁷ A supervisory benchmark was prepared on the issue of offering the possibility to become an insured person pursuant to Article 4 of the Insurance and Reinsurance Distribution Act. The purpose of the benchmark is to transparently communicate the CNB's expectations regarding this issue.

²⁸ In particular the PRIIPs regulation and IDD and their implementing measures.

²⁹ Supervisory Benchmark No. 3/2019 References to other documents in an insurance policy and insurance terms and conditions, and Supervisory Benchmark No. 1/2019 regarding some duties of insurance companies relating mainly to the end of unit-linked life insurance policies in the event of survival or on the date set as the end of insurance.

2019. Two decisions became final and conclusive the same year, a remedial measure being imposed in one case and administrative proceedings being discontinued in the other. In the remedial measure, the CNB ordered an insurance company to change its organisational structure so as to prevent a conflict of interests.

Risk factors going forward and supervisory priorities in the period ahead³⁰

In 2019, the Czech insurance market was sound overall in terms of capitalisation and financial performance and stability, and showed no fundamental problems or disruptions requiring major systemic supervisory interventions. The solvency ratio for the market as a whole under the Solvency II rules remained high in 2019. The sector's sufficient capitalisation in relation to the negative scenarios considered was confirmed by the results of the regular stress tests organised by the CNB.

In 2019, the CNB identified the following main risks going forward. Owing to changes in the regulatory environment, insurance companies were and still are facing increased requirements as regards compliance with the duties imposed on them by new regulations (in particular IDD and the PRIIPs regulation and their implementing measures), which place increased demands on the quality of governance processes, including internal control systems, on personnel and expertise, and on compliance with the rules of conduct towards clients – in terms of both the conduct itself and the provision of information required by law at all times during the provision of insurance.

Competition on the insurance market remained strong, exerting significant pressure on premium rates. Coupled with increasing claim settlement demands, this may adversely affect the sufficiency of technical provisions and rates, specifically in vehicle liability insurance. The drop in profit margins may also be reflected in inadequate configuration of insurance companies' governance systems. The CNB will thus continue to pay increased attention to the vehicle liability insurance segment.

Reinvestment risk is another risk in the insurance sector to be monitored in the period ahead. This risk is particularly relevant for insurance companies specialising in life insurance, as they may opt for more aggressive investment strategies because of lower investment returns. Supervisors will thus continue to focus on analysing individual insurance companies' investment strategies.

Operational risks, in particular ICT risks, including cyber risk, are also among the risks that are gaining in importance. These risks will be assessed as part of ORSA and other governance system elements in the context of the insurance company's business model and risk profile.

The insurance sector will also be affected by the legislation governing the taxation of insurance companies' technical provisions,³¹ under which the method for calculating insurance companies' tax-deductible technical provisions for determining the income tax base has been changed. The calculation will be based on technical provisions set in accordance with Solvency II instead of the previously used accounting technical provisions. As a result of this fiscal measure, insurance companies will see a one-off increase in their tax charge, the payment of which will be spread over two tax periods. The CNB will analyse the impacts of this measure on the domestic insurance market, particularly in relation to the capital and liquidity positions of the insurance market and individual supervised entities.

As regards supervision in the conduct of business and consumer protection areas, the CNB has set product governance as a priority, as suitable product governance rules and procedures can eliminate room for possible harm to consumers. While in 2019 the CNB focused on the implementation of internal guidelines for the creation and review of insurance products and regular assessment of their benefits for clients, the priorities for the period ahead will concentrate on the creation, review and regular assessment of specific insurance products, in particular the creation of insurance products with regard to their suitability and value for money for clients. In view of the greater interest in consumer protection in European regulations, and given the activities and areas identified by EIOPA as requiring attention from national supervisory authorities, supervision in the

³⁰ The entire domestic financial market has been significantly affected in 2020 by the COVID-19 pandemic. However, the supervisory priorities and the measures taken in connection with developments in 2020 are not covered by this report, which describes the situation as of 31 December 2019. The CNB's pandemic-related supervisory activities will be described in the 2020 report.

³¹ Act No. 364/2019 Coll., amending certain laws in the area of taxes in connection with increasing public budget revenues.

period ahead will concentrate on the quality of the products offered and related consumer services. The CNB will also examine potential indicators of low value for money of insurance products for consumers (such as business models, remuneration structures between insurance companies and distributors, and loss ratios).

The CNB will continue to monitor the decision-making practices of the Financial Arbitrator and the courts, particularly in higher instances, as they provide a unifying perspective on the interpretation of legal rules, one which the rules and processes of each insurance company may differ from. Attention will also be paid to the impacts of these rulings on insurance companies' activities, including management of the resulting risks. Meanwhile, the CNB will continue to take into account the fact that, in the Czech legal environment, each ruling of the Financial Arbitrator and the courts is a ruling taken in an individual case with no further implications for the insurance contracts in insurance companies' insurance portfolios.

In order to continuously monitor and assess the above main risks which it identifies and focuses on in the course of its supervisory work, the CNB will continue to apply a comprehensive, prospective approach to supervision in the insurance sector. This approach involves systematically monitoring insurance companies' financial condition and performance, including assessing whether the strategy, capitalisation, governance system configuration and overall quality of the insurance company's risk management system create sufficient conditions for covering the risks to which the company is or may be exposed.

III.3 SUPERVISION OF PENSION MANAGEMENT COMPANIES AND RETIREMENT FUNDS

The CNB was supervising eight pension management companies (PMCs), eight transformed funds and 30 participation funds at the end of 2019. Only the number of participation funds changed compared with 2018, as new licences were granted to two new entities – ČSOB pro penzi účastnický fond ČSOB Penzijní společnosti, a.s. and KB peněžní účastnický fond KB Penzijní společnosti, a.s. In addition, proceedings were conducted on consent to a change in the statute of a participation fund and consent to the discharge of office of director of a pension management company.

In 2019, the CNB focused mainly on assessing the capital adequacy and capital management systems of PMCs. CNB supervision of transformed funds concentrated primarily on compliance with the requirement to cover liabilities with assets at all times. The CNB also assessed the quality of risk management systems, compliance with the rules for the management of assets of funds managed by PMCs and the accuracy of the accounting of PMCs' fees for the accounting period. In the area of the management of PMCs' capital and capital position, the CNB conducted supervisory surveys in all PMCs focusing on the configuration of processes and governance systems in the capital management area. Based on the results of the supervisory surveys, the CNB called on PMCs to submit the content of measures to eliminate the shortcomings identified and a timetable for implementing them.

The CNB received a total of 37 submissions from the public in the area of private pension schemes and supplementary pension savings in 2019. The flat trend in the number of complaints observed in previous years thus continued. The submissions mostly concerned the (low) performance of the funds managed by PMCs, payments of savings to planholders, the amount of fees for the management of assets in funds and fees for achieving returns, and communication with planholders and dealing with their complaints and claims. Conduct of business shortcomings were not identified in any PMC in 2019. The CNB conducted no enforcement proceedings against PMCs or retirement funds.

Risk factors going forward and supervisory priorities in the period ahead³²

In the period ahead, supervisors will continue to focus on the capital position of PMCs and the ability of transformed funds to cover their liabilities with assets. The CNB will monitor indicators of changes in

³² The entire domestic financial market has been significantly affected in 2020 by the COVID-19 pandemic. However, the supervisory priorities and the measures taken in connection with developments in 2020 are not covered by this report, which describes the situation as of 31 December 2019. The CNB's pandemic-related supervisory activities will be described in the 2020 report.

participants' behaviour when terminating pension products, guarantees provided, and changing ratios of payouts to contributions in private pension schemes.

A broad thematic survey of the handling of participants' claims and complaints is scheduled for 2020.

III.4 SUPERVISION OF INVESTMENT FIRMS

The CNB registered 38 entities holding an investment firm licence at the end of 2019, of which 16 were banks and 22 were non-banks. It granted licences to non-bank investment firms Moventum a.s. and eFrank.cz a.s. HighSky Brokers, a.s. closed down. The CNB received two notifications from foreign non-bank investment firms of the provision of investment services through a branch in the Czech Republic. Four branches of investment firms provided notification of the termination of their activities (one branch of a bank investment firm and three branches of non-bank investment firms).

CNB supervision of non-bank investment firms focused on checking compliance with the requirements implemented into Czech law by MiFID II in 2018. In order to assess the risks arising from shortcomings in the conduct of business area, the CNB conducted thematic surveys in the areas of executing transactions under the best conditions and assessing suitability in the provision of investment services to retail clients.

The survey revealed that investment firms are compliant with the duty to publish the five most significant trading venues and investment firms they use to execute transactions under the best conditions. However, there are shortcomings in the quality of the information disclosed. The issue of sufficient transparency of the information provided will thus be investigated further. The survey also revealed that investment firms rely mostly on client self-assessments for obtaining information for the purposes of assessing suitability and do not have processes in place to verify the credibility of the information provided. Another problematic area is the updating of data, as there are often no procedures to follow if information is found to be inaccurate or incomplete.

The results obtained from the assessment of the survey, including notifications of shortcomings identified and CNB recommendations, were provided to all the investment firms concerned. Inspections to check whether the shortcomings have been rectified will be conducted gradually according to the supervisory work plan.

The CNB also took part in a peer review on compliance with the MiFID II suitability assessment rules organised by the European supervisory authority ESMA. The review revealed some shortcomings in the suitability assessment system, which were subsequently discussed with the institutions concerned.

The level of implementation of the new MiFID II rules will also be examined in the course of supervision in the period ahead. Another peer review will be conducted in collaboration with ESMA in order to harmonise the supervisory practices of individual national authorities. The review will focus on the assessment of information regarding the suitability of investments and investment advice for clients.

Given the persisting problems with the activity of foreign entities providing investment services mainly for high-risk investment instruments, cooperation with their home supervisors will continue. In 2019, complaints about foreign entities or their branches and tied agents in the Czech Republic accounted for 80% of the submissions from the public concerning investment firms.

These complaints showed that it is often difficult to determine the extent of the involvement of branches of foreign investment firms in the provision of investment services to clients. Branches often declare that they only promote investment services and do not offer them. In order to prevent regulatory arbitrage, it is thus necessary to identify the true nature of their activities in cooperation with the supervisory authority that licensed the foreign investment firm. The complaints also revealed that some entities recommend that their clients request the status of professional client in response to product interventions relating to high-risk instruments such as binary options and contracts for differences. In this regard, the CNB prepared another warning about the risks of trading in contracts for differences alerting the public to conduct that worsens the position of retail clients.

Supervisory work will continue to be focused on checking whether foreign investment firms have adapted to the amendment to the Capital Market Undertakings Act effective May 2020. Under this amendment, foreign investment firms may offer investment services in the Czech Republic only temporarily or occasionally without establishing a Czech branch, with the exception of the provision of investment services to professional clients, to whom they can continue to provide services permanently without establishing a branch. Permanent provision of investment services by foreign investment firms to retail clients in the Czech Republic is still possible only through a branch or a tied agent.

The suitability of investment and investment advice will also be the topic of a peer review to be organised by ESMA in 2020.

Pursuant to the Capital Market Undertakings Act, two enforcement proceedings were opened and six decisions became final and conclusive in 2019. Fines totalling CZK 11.1 million were imposed in five cases. BH Securities a.s. was fined CZK 5 million for failure to implement rules and procedures for communication with clients about specific risks associated with bonds located in clients' assets, including providing information on incentives received from issuers. Raiffeisenbank a.s. was fined CZK 4 million for breach of the obligations of an investment firm when providing investment services. Other fines were imposed on HighSky Brokers, a.s. (a former investment firm, fined CZK 1 million for breach of obligations in the conduct of business area and certain other areas), Conseq Investment Management, a.s. (fined CZK 500,000 for insufficient obtainment of information from clients and provision of information to clients), ASJC a.s. (the former investment firm AFIN BROKERS, a.s., fined CZK 500,000 for breach of obligations in managing clients' assets, especially for churning and failure to inform clients) and Colosseum, a.s. (fined CZK 100,000 for breach of the rules of conduct towards clients). One administrative proceeding was fully discontinued.

III.5 SUPERVISION OF MANAGEMENT COMPANIES AND INVESTMENT FUNDS

The CNB registered 33 management companies, two branches of foreign management companies, one primary administrator, 156 investment funds with legal personality (of which 30 autonomous investment funds) and 252 mutual funds at the end of 2019. It granted licences to three new management firms (Sirius investiční společnost a.s., Winstor investiční společnost a.s. and TILLER investiční společnost a.s.) and one autonomous investment fund (Bohemian Empire, investiční fond s proměnným základním kapitálem, a.s.). CYRRUS, a.s. was entered in the list of investment fund depositories.

The CNB mapped the liquidity management situation in order to check compliance with the statutory requirements in practice. The check revealed that some supervised entities were not using suitable methods to assess and test liquidity risk.

The liquidity area is governed by new ESMA guidelines applicable as of 30 September 2020.³³ The issue of their implementation in liquidity management processes in management companies and investment funds is another area that the CNB will address in the period ahead. An ESMA-organised peer review of liquidity management in standard funds is scheduled for 2020.

In 2019, the CNB reviewed the content and design of regulatory reporting in the area of management companies and investment funds, which resulted in a draft amendment to Decree No. 249/2013 Coll.³⁴ The main changes are: (i) a modification of the taxonomy to make the rules clearer, (ii) harmonisation of the time limits for reporting, and in some cases also a reduction in the reporting frequency, (iii) simplification and clarification of the names of individual reports, and (iv) the introduction of a new report in response to the legislative changes. In connection with the requirement laid down in Article 4a of the decree on accounting³⁵ regarding the valuation of financial instruments in accordance with international accounting standards, which is to take effect on 1 January 2021, the regulatory statements will be modified and a change to the Act on

³³ The guidelines of the European Securities and Markets Authority on liquidity stress testing in UCITS funds and alternative investment funds, which were issued on 2 September 2019.

³⁴ Decree No. 249/2013 Coll., on reporting by a manager and an administrator of an investment fund or foreign fund to the Czech National Bank.

³⁵ Decree No. 501/2002 Coll., implementing certain provisions of Act No. 563/1991 Coll., on Accounting, as amended, for accounting units that are banks and other financial institutions.

Management Companies and Investment Funds and the related regulation in the area of management companies and investment funds will be proposed in the period ahead.

In 2019, the CNB assessed the implementation of the requirements laid down in Decree No. 67/2018 Coll.³⁶ in the internal rules of management companies and autonomous investment funds. It notified individual managers of discrepancies in the risk management area, the configuration of the rules and processes for determining clients' risk profiles, the identification of unusually complicated or large transactions, and insufficient retraceability of approval and decision-making processes and control activities in internal policy systems.

In 2019, the CNB opened 12 enforcement proceedings in the area of management companies and investment funds, while 11 decisions became final and conclusive. Pursuant to the relevant sectoral law, fines were imposed in nine cases and the companies concerned were simultaneously deleted from the register of persons conducting asset administration comparable to asset management. A fine was also imposed in one case and administrative proceedings were discontinued in one case. The fines imposed under the sectoral law totalled CZK 555,000. In addition, one decision to impose a fine of CZK 50,000 on a management company for breaching the anti-money laundering law became final and conclusive.

III.6 SECURITIES ISSUES AND REGULATED MARKETS

Securities of 122 companies,³⁷ of which 76 were fully subject to CNB supervision as regards compliance with information duties,³⁸ were admitted to trading on a European regulated market as of the end of 2019. Shares of four issuers³⁹ and bonds of 12 issuers were newly admitted to trading on a regulated market in 2019. By contrast, five bond issues were excluded from trading owing to due or early redemption and six share issues were excluded from trading at the decision of the issuer or regulated market operator during 2019. The CNB received 244 notifications of the approval of securities prospectuses (or amendments thereto) for the purposes of public offers in the Czech Republic from foreign supervisory authorities.

The number of supervised entities in the market infrastructure area was unchanged in 2019. Three entities continued to operate as regulated market operators, multilateral trading facilities and organised trading facilities (Burza cenných papírů Praha, a.s., RM-SYSTÉM, česká burza cenných papírů a.s. and 42 Financial Services, a.s.), two as operators of settlement systems with settlement finality (Centrální depozitář cenných papírů, a.s. and the CNB as the operator of the Short-term Bond System), one as a central depository (Centrální depozitář cenných papírů a.s.) and one as a benchmark administrator, namely the PRIBOR interbank rate administrator (Czech Financial Benchmark Facility, s.r.o.).

Issuers' information duties

Supervision in the area of issuers' information duties focused mainly on reviewing the content of annual and semi-annual reports in 2019. In connection with the review of the content of annual and semi-annual reports for 2018, 20 notifications of minor shortcomings (with a requirement to make modifications in the future) and calls for the removal of shortcomings in these reports were sent to 74 issuers. Of the 66 semi-annual reports for the first half of 2019 reviewed, a total of 29 notifications of minor shortcomings (with a requirement to make modifications in the future) were sent out. The CNB called on issuers to correct published semi-annual reports in six cases.⁴⁰

The most significant shortcomings were found in the annual and semi-annual reports of issuers that are funds for qualified investors. The reports contained insufficient information on the funds' financial condition, business

³⁶ Decree No. 67/2018 Coll., on certain requirements for the system of internal principles, procedures and control measures against money laundering and financing of terrorism.

³⁷ This number includes all issuers (both domestic and foreign) whose securities are admitted to trading on a regulated market in the Czech Republic, issuers based in the Czech Republic whose securities are admitted to trading on a regulated market in another EU Member State, and also issuers based outside the Czech Republic whose securities are admitted to trading on a regulated market in the Czech Republic.

³⁸ The remaining cases were issuers whose home supervisory authority was the supervisory authority of another EU Member State (10) or issuers whose home supervisory authority was the CNB but enjoyed one of the exemptions from the information duties (36).

³⁹ All cases were funds for qualified investors.

⁴⁰ As of 25 March 2020, three reports had been corrected.

activities and financial results and on current or planned significant investments in property. The other cases were minor shortcomings, especially insufficient information regarding remuneration principles and alternative performance measures.

In addition to the standard reviews, eight annual reports for 2018 were subjected to a detailed review of compliance of financial statements with IAS/IFRS. Five were reports of collective investment funds. Findings of a less serious nature were identified in all cases, and the CNB merely sent out notifications containing a requirement to make remedy in future financial statements.

The CNB also continuously supervised compliance with the duties of issuers and related persons concerning notifications of shares in voting rights and directors' transactions. Further to the findings, it communicated the shortcomings with a subsequent requirement to make remedy.

Approvals of securities prospectuses

The CNB approved 70 securities prospectuses (or supplements thereto) in 2019. The large majority of these concerned bonds, while three related to shares, two of which involved public offers through the Prague Stock Exchange (START public offers). In the course of its supervisory work, the CNB reviewed 126 sets of final conditions for offers of securities outside administrative proceedings in 2019.

Takeover bids and squeeze-outs

The CNB conducted no administrative proceedings with respect to takeover bids and squeeze-outs.

Market infrastructure

In 2019, the CNB granted pre-trade transparency waivers under MiFIR to the Prague Stock Exchange (PSE) and conducted two administrative proceedings with the PSE concerning the suspension of these waivers in relation to specific securities. It also assessed changes in trading rules connected with the transition to the XETRA T7 trading system. The CNB also newly assessed 23 notifications of the intention of non-financial groups to apply the exemption from the obligation to report to a trade repository pursuant to Article 9(1) of EMIR.⁴¹

In 2019, proceedings were conducted in relation to the Central Securities Depository regarding authorisation of an extension of its activities to include conducting financial settlement of euro-denominated trades on the accounts of another settlement agent (using the TARGET2 payment system with a settlement account at Národní banka Slovenska).

In the securities issuers area, 11 new enforcement proceedings were opened in 2019. In all, 14 decisions became final and conclusive. Fines were imposed in ten cases, a fine was imposed and the proceedings partially discontinued in one case, and the proceedings were discontinued entirely in three cases. The violations mainly involved breaches of obligations in public share offers (typically the offering of securities to the public without publishing a prospectus) and breaches of the reporting requirement with respect to shares in the voting rights of companies whose shares have been admitted to trading on a regulated market. The fines imposed in this area totalled CZK 2,310,000.

III.7 SUPERVISION OF PAYMENT SERVICE PROVIDERS AND ELECTRONIC MONEY ISSUERS

The CNB registered 26 payment institutions at the end of 2019. Two new licences for the pursuit of business of a payment institution were granted – to Benxy s.r.o. (formerly Zonky s.r.o.) and EasyChange, s.r.o. Authorisation to provide the service of provision of information on a payment account was granted to Budget Bakers s.r.o. The number of applications under the Payment System Act increased enormously over the course of the year, by 40 submissions. Compared with other sectors, the quality of applications here is often low. The CNB thus has to call on the applicants repeatedly and in detail to bring their internal regulations into conformity with their business plan and the legislation. Applicants were also often unable to submit an account

⁴¹ Regulation (EU) 648/2012 of the European Parliament and of the Council on OTC derivatives, central counterparties and trade repositories.

agreement with a credit institution or a promise to enter into an agreement demonstrating in the licensing proceedings that the funds entrusted for the performance of payment transactions were protected.

Supervisory activities were focused primarily on verifying the functionality of operational and security risk management systems and their compliance with the new requirements arising from implementation of the European Payment Services Directive.

As part of off-site surveillance, the CNB in early 2019 completed the process of verifying compliance of activities with licence conditions for the entire domestic non-bank payment service provider market. In related on-site examinations, in the nine inspections it commenced and completed in 2019, the CNB found divergence from internal regulations concerning risk management in three cases and significant inconsistencies between the institution's declared business plan and its actual activity in six cases. The shortcomings in the money-laundering risk management area related to the identification and vetting of customers and the setting and processing of internal policies.

The CNB also used a thematic survey to examine compliance with the rules of strong (two-factor) authentication. The survey revealed that the majority (79%) of the institutions concerned had implemented the rules for strong authentication. However, the supervised institutions failed to demonstrate compliance with the relevant requirements in practice, especially in the area of e-commerce (card payments on the internet).

Further to the findings of the above thematic survey, the CNB will continue to focus in the period ahead on supervising the completion of the implementation of strong authentication by the institutions concerned. In relation to e-commerce, with regard to the opinion of the European Banking Authority (EBA) providing a 15-month deadline extension for the implementation of strong authentication rules and actions, the CNB will, in accordance with the schedule set by the EBA, bilaterally address the method of implementation of the rules with the providers concerned so that the implementation process is completed by the end of 2020.

Supervisors will also examine money-laundering risk management by non-bank payment service providers. In the AML area, the CNB will also focus on updating and comprehensively evaluating the risk profiles of payment service providers and electronic money issuers. These risk profiles will be used in preparing for the implementation of guidelines for AML/CFT supervisory colleges and also in on-site examinations, especially in relation to small-scale payment service providers and small-scale electronic money issuers.

The CNB is also working on the issue of financial innovation. In November 2019, it established a FinTech contact point and thereby took its place alongside other European supervisory authorities that have launched innovation support programmes. The contact point aims to promote the introduction of innovative technologies on the Czech financial market through more active and intensive communication with incumbent institutions and potential new entrants.

The CNB opened 50 enforcement proceedings under the Payment System Act in 2019. In all, 44 decisions became final and conclusive. Licences were revoked in 22 cases (three small-scale electronic money issuers, 18 small-scale payment service providers and one payment institution). Fines were imposed in 12 cases, a fine was imposed and the proceedings partially discontinued in one case, and the proceedings were discontinued entirely in nine cases. A large proportion of the licence revocations were the result of failure to demonstrate compliance with the conditions for operation under the new Payment System Act. The fines imposed under the relevant sector-specific law totalled CZK 1,050,000. In addition, one decision to impose a fine of CZK 500,000 on an authorised representative of a payment service provider under the Act on the Circulation of Banknotes and Coins became final and conclusive.

III.8 SUPERVISION OF CONSUMER CREDIT PROVIDERS

Consumer credit is provided by credit institutions and by non-bank consumer credit providers. A current list of consumer credit providers is available on the CNB website. The CNB registered a total of 86 non-bank consumer credit providers as of the end of 2019. During the year, it granted licences to four entities (První

chodská develop, a.s., D.S. Leasing, a.s., TROJANREALITY, s.r.o. and FRIENDLY CASH, SE). Five providers terminated their activities in 2019.

As part of the supervision of these entities, the CNB in March 2019 published an opinion regarding the actually incurred costs that can be claimed from consumers in connection with early repayment of consumer credit for house purchase. This opinion was issued to establish the supervisor's expectations of supervised entities that must be met in practice (the material conclusions of the opinion are described in section II.3).

After publishing the opinion, the CNB performed a thematic survey of 56 providers of consumer credit for house purchase to verify how these entities had (i) implemented the supervisor's expectations into their internal regulations and procedures, (ii) informed their employees and distribution networks of the changes made, (iii) settled claims they had received following the publication of the CNB opinion, and (iv) defined each of the items included in costs claimed from consumers in connection with early repayment requests.

The survey revealed that 40 providers had been processing requests in compliance with the CNB opinion. In 16 companies, implementation was insufficient, so the CNB sent out calls for these institutions to bring their activities into compliance with the law.

In 2019, the CNB opened 12 new enforcement proceedings under the Consumer Credit Act and 10 decisions became final and conclusive. Fines were imposed in all cases. The fines imposed totalled CZK 1,050,000. Higher fines were imposed for unauthorised provision of consumer credit without a licence on a group of persons associated with the intermediary UNICREDO SYSTEM a.s. (see section III.9).

III.9 SUPERVISION OF RETAIL DISTRIBUTORS

In the retail distributors sector, the number of investment intermediaries and tied agents on the capital market decreased again in 2019 as a result of the obligation to pay an administrative fee for an extension of the authorisation to carry on business. In most cases, this happened through conscious failure to pay administrative fees, which cleared the list of defunct intermediaries.

The number of insurance intermediaries was also reduced by a new law which introduced only three categories of insurance intermediaries instead of five and simultaneously set a four-month transition period for the transfer of registrations to registration under the new law. Those who failed to take advantage of the transition period lost their authorisation. Table B.15 shows the substantial decrease in the number of insurance intermediaries.

In the area of testing the expertise of insurance distributors, the CNB in August 2019 published a set of examination questions regarding the Insurance and Reinsurance Distribution Act. By the end of the year, 19 accreditations to organise professional examinations pursuant to this Act had been issued and one accredited entity had requested the withdrawal of its accreditation. Accredited entities (entities authorised by the CNB to examine financial services providers or intermediaries using unified sets of test questions provided by the CNB and the Ministry of Finance) have been testing expertise on the Consumer Credit Act since 2017 and also on the Capital Market Undertakings Act since 2018.

The supervisory work was focused on compliance with the requirements arising from the transposition of IDD and MiFID II. The CNB conducted two thematic surveys targeted at the distribution of investment life insurance, especially products with non-standard or risk elements, and on compliance with the requirements applying to the management bodies of investment intermediaries.

The supervisory work revealed that some insurance intermediaries had not taken sufficient account of the new insurance distribution legislation in their internal procedures. The most frequently identified problems also included shortcomings in the fulfilment of the duty to obtain information from clients and to provide them with advice before concluding unit-linked policies, shortcomings in records of negotiations with clients and shortcomings in fulfilling the information duties to clients. The surveys also revealed that a number of investment intermediaries were not compliant with the required minimum number of members of the management body or the requirement for collectivity of the management body. Other common findings of the

inspections of investment intermediaries included failure to follow established internal control procedures and failure to disclose incentives accepted.

Based on its surveys, the CNB published a warning for distributors of insurance products on its website regarding investment life insurance products with non-standard or risk elements. The CNB also encouraged the distributors concerned to bring their activities into compliance with the legislation by sending out notices of shortcomings and calling for voluntary remedy. The CNB also sent out notices of shortcomings to investment intermediaries that did not meet the requirements applying to management bodies and called on those entities to remedy the shortcomings voluntarily and, where necessary, enforced the fulfilment of duties in administrative proceedings. In cases of serious breach of duty, the findings were addressed in administrative proceedings.

In connection with new legislation applying to the activities of policyholders, consisting in the option of becoming an insured party pursuant to Article 4 of the Act on Insurance and Reinsurance Distribution, the CNB mapped the extent of this activity. For investment intermediaries, it also completed an inspection of compliance with the obligation to prepare and deliver in writing to the CNB a system of internal principles and a risk assessment pursuant to the Anti-Money Laundering Act. It called on entities to comply with the obligation and encouraged them to remedy the shortcomings found. The CNB also conducted a thematic survey to obtain information on the range of retail distributors' authorised activities.

In the coming period, the CNB will continue to focus on the sufficiency of implementation of the regulatory requirements into retail distributors' internal procedures, especially as regards product management requirements in the areas of intermediation of insurance and investment products and the requirements concerning rules of conduct towards clients. The CNB will continue to devote attention to the preparation of regulatory reporting for retail distributors, which will define key areas for continuous market monitoring.

In its inspection activities, the CNB will focus in the period ahead on the activities of accredited entities and the fulfilment of the professional competence requirements applying to retail distributors and their employees.

In 2019, seven enforcement proceedings were opened against insurance intermediaries pursuant to the Insurance and Reinsurance Distribution Act, and 11 decisions became final and conclusive. Fines were imposed in six cases, a fine was imposed and the proceedings were partially discontinued in one case, entries in the register of insurance intermediaries were deleted in three cases, and the proceedings were discontinued entirely in one case. The fines imposed under the sector-specific law in 2019 totalled CZK 400,000. In the area of insurance intermediaries, one decision to impose a fine of CZK 400,000 for violation of the Anti-Money Laundering Act became final and conclusive.

The CNB opened 19 enforcement proceedings against investment intermediaries under the Capital Market Undertakings Act in 2019. In all, 13 decisions became final and conclusive. Fines were imposed in 10 cases, a fine was imposed together with a remedial measure in one case, and the proceedings were discontinued entirely in two cases. The fines imposed under the sector-specific law totalled CZK 920,000. In the area of investment intermediaries, the CNB issued two decisions to impose a fine for violation of the Anti-Money Laundering Act. These fines totalled CZK 280,000.

In 2019, the CNB opened nine enforcement proceedings against consumer credit intermediaries, and 12 decisions became final and conclusive. Fines were imposed in ten cases, and the proceedings were discontinued in two cases. The fines imposed in 2019 totalled CZK 1,785,000. The largest fine – of CZK 1.4 million – was imposed on UNICREDO SYSTEM a.s. for intermediating more than 3,500 consumer loans with a total value in excess of CZK 16 million without authorisation.

III.10 SUPERVISION OF BUREAUX DE CHANGE

In 2019, 38 bureaux de change were granted licences, while 85 terminated their activity. The CNB registered 952 bureaux de change as of 31 December 2019.

The supervisory work mainly involved checking compliance with new rules introduced with effect from 1 April 2019 by an amendment to the Act on Bureau de Change Activity. The changes are intended to strengthen the rights of bureau de change clients. The CNB conducted a thematic survey covering 173 Prague bureaux de change for which a heightened risk of clients incurring a loss had been identified (bureaux de change in the most touristy locations). The main subject of the survey was compliance with the rules concerning the prohibition of publishing VIP rates and with the obligation to allow clients to withdraw from an exchange transaction agreement (i.e. to cancel the transaction) within three hours of its execution.

The thematic survey found that four bureaux de change located in the centre of Prague were publishing VIP rates alongside the standard exchange rate table and were not allowing transactions to be cancelled at the client's request. Based on these findings, the CNB commenced on-site examinations, which confirmed the findings, and opened administrative proceedings against the relevant operators. In only one case was bureau de change activity being carried on without the relevant public law authorisation. This finding was addressed by the submission of a petition to open proceedings for the offence of carrying on unauthorised business.

The CNB performed another 12 inspections of bureau de change operations throughout the Czech Republic during 2019. It commenced a further four inspections the same year. The most frequent shortcomings consisted in failure to issue a receipt for the test exchange transaction containing the required particulars, failure to provide pre-contract information in the case of exchange transactions exceeding EUR 1,000, publication of specific VIP rates, and refusal to cancel a trade or hindrance of the exercise of this right. Only in one case were no reasons for submitting a petition to commence administrative proceedings found.

In the coming period, the CNB will therefore continue to focus on compliance with the rules of conduct towards clients. Emphasis will be placed on checking fulfilment of obligations associated with the client's right to withdraw from a bureau de change transaction, i.e. whether the bureau de change cancels an exchange transaction at the client's request and whether it hinders the exercise of this right in any way, and on checking fulfilment of the related information duty. The CNB will also focus on compliance with the prohibition of publishing VIP rates. Due to high exposure to the risk of money laundering, the CNB will concentrate on this area in its supervisory work as well. The priority in this regard will be to comprehensively evaluate and update the risk profiles of selected significant bureau de change operators.

A total of 14 enforcement proceedings were opened for violation of the Act on Bureau de Change Activity in 2019. The CNB issued 14 final and conclusive decisions. Fines were imposed in 11 cases, a fine was imposed together with a remedial measure in one case, a bureau de change licence was revoked in one case, and a licence was revoked and a fine imposed in one case. The fines imposed under the relevant sector-specific law totalled CZK 2,730,000. Among other things, the CNB fined Exclusive Change, s.r.o., and CHIVAS INVEST s.r.o. CZK 500,000 for publishing information on an offer of more advantageous exchange rates in a manner confusable with the exchange rate information given on the exchange rate list. Bureaux de change were also penalised pursuant to laws other than the Act on Bureau de Change Activity. Six decisions against bureaux de change became final and conclusive pursuant to the Act on the Circulation of Banknotes and Coins, with fines being imposed in five cases and administrative proceedings being discontinued in one case. The fines imposed on bureaux de change under this law totalled CZK 825,000. They included a fine of CZK 350,000 imposed on PEMEX change s.r.o. In addition, three decisions regarding violation of the Anti-Money Laundering Act became final and conclusive, with fines totalling CZK 155,000.

IV. INTERNATIONAL COOPERATION

Through its membership in numerous European bodies and institutions, the Czech National Bank, as a financial market supervisor, helps to shape the single European financial services market. Besides this, it is actively involved in the activities of international organisations, which gives it a say in the creation of international standards for regulation and supervision of the financial market. The CNB is part of the European System of Financial Supervision (ESFS) and, within it, works in cooperation with the European Systemic Risk Board (ESRB) and the European supervisory authorities for the banking industry (EBA), insurance and occupational pensions (EIOPA) and securities and markets (ESMA). On the international level, the CNB is a member of the International Organization of Securities Commissions (IOSCO), the International Association of Insurance Supervisors (IAIS), and the International Organisation of Pension Supervisors (IOPS). Last but not least, the CNB is actively involved in the work of the Basel Committee on Banking Supervision.

In 2019, the three European supervisory authorities (ESAs) worked to a large extent on joint areas of interest (digitalisation of financial services, cyber security, sustainable finance, PRIIPs and Brexit) and on selected – primarily regulatory – issues. For the EBA this involved a review of CRD IV/CRR and for EIOPA a review of Solvency II. ESMA focused, among other things, on enhancing the protection of retail clients and in this context issued product intervention measures with national supervisory authorities to mitigate the risk of high-risk binary options and contracts for differences being marketed and sold to retail clients in the EU.

Digitalisation of financial services

Digitalisation of financial services is closely linked with financial innovation, an issue which the ESAs paid considerable attention to in 2019. We mention only its most discussed areas here.

In 2019, the CNB contributed to a joint report of the ESAs on the functioning of national innovation support schemes (regulatory sandboxes and innovation hubs), including the potential establishment of a common European platform for innovation support mechanisms. The report compares selected aspects of these schemes in individual jurisdictions and proposes examples of best practices for establishing them.

The CNB was actively involved in the preparation of an ESMA report on initial coin offerings (ICOs) and crypto-assets, which, among other things, describes the risks associated with crypto-assets, their taxonomy, the regulatory implications of crypto-assets qualifying as financial instruments, and the consequences of such qualification. The report also discusses the approach to crypto-assets to which the MiFID rules on financial instruments do not apply. The report nonetheless does not answer the fundamental question of under what conditions crypto-assets should be considered financial instruments.

Cyber security

Further to the European Commission's March 2018 FinTech Action Plan, the ESAs issued two pieces of joint advice for the Commission proposing possible changes to the European legislation that could help enhance the cybersecurity of financial corporations and contribute to the creation of a common framework for testing the cyber resilience of significant market participants and infrastructures in the EU. The CNB supported the efforts to harmonise the existing rules for reporting incidents and the endeavour to create a unified terminology to facilitate incident reporting for various purposes. The CNB also generally supported the creation of a common cyber resilience testing framework in a form that will have balanced overall costs and benefits both for the CNB and for regulated entities and will permit its use in tests in the EU and the Czech Republic.

Packaged retail and insurance-based investment products

In 2019, the ESAs worked on improving the unsatisfactory situation in the area of the provision of key information on packaged retail and insurance-based investment products (PRIIPs). They recommended not proposing just a targeted amendment of the regulatory technical standard (RTS), but instead gave preference to a fundamental review of the RTS with consumer testing and other market consultations. The ESAs also issued a supervisory statement concerning performance scenarios with the aim of promoting consistent approaches and enhancing consumer protection, as they concluded that there is a risk of financial corporations

providing investors with inappropriate expectations about the possible returns they may make. The ESAs therefore recommended that PRIIP manufacturers include a warning in the key information document (KID) to ensure that investors are fully aware of the limitations of the figures shown in the performance scenarios. In this regard, the CNB preferred a further postponement of UCITS funds' obligation to prepare a PRIIPs KID and supported the conducting of an in-depth analysis of the PRIIPs RTS.

Brexit

In connection with the UK's departure from the EU, all the ESAs prepared intensively for a possible no-deal Brexit and focused on checking the contingency plans of supervised firms, enhancing the client communication activities of financial corporations, and establishing future cooperation between the ESAs, the EU27 national supervisors and the UK supervisory authorities in the form of bilateral (MoU) or multilateral (MMoU) memoranda of understanding. During the year, the CNB signed the ESMA capital markets MMoU, the EIOPA insurance market MMoU and the EIOPA insurance and occupational pensions MMoU.

Product interventions

ESMA's fundamental contribution to enhancing the protection of retail clients against high-loss investment instruments in 2019 consisted in product intervention, specifically the temporary prohibition of the marketing, distribution or sale of binary options and the temporary restriction of the marketing, distribution or sale of contracts for differences to retail clients. Over the course of the year, ESMA twice renewed its temporary decisions of 2018 and called on national supervisory authorities to adopt the same decisions indefinitely at national level. The CNB gradually issued, in the form of provisions of a general nature, product intervention measures in the same scope as the above-mentioned ESMA decisions. Similar national product intervention measures were issued during the year by most national supervisory authorities in the EU.

Review of Solvency II

EIOPA's core topic last year was the review of Solvency II, and in this context it decided to prepare an opinion for the Commission. To this end, it issued a consultation paper towards the end of the year containing a number of recommendations, including in the areas of technical provisions, own funds, the solvency capital requirement standard formula, the minimum capital requirement, supervisory reporting and disclosure, proportionality, group supervision, macroprudential policy, recovery and resolution, insurance guarantee schemes, and long-term guarantees measures and measures on equity risk. A public consultation on this issue was also launched, which ended in mid-January 2020. The CNB commented on topics of the Solvency II review as part of its activities at EIOPA, where it promoted, in addition to eliminating duplication in reporting, more detailed information requirements and an obligation to submit static information only if there is a material change. The CNB also expressed its disagreement with the proposed methodology for assessing depth, liquidity and transparency, which uses a single, inappropriate limit for all evaluated currencies, and also raised objections to the proposed expansion of EIOPA's competencies in connection with the review of this directive.

Implementation of Basel recommendations

The EBA's main areas of work in 2019 included the preparation of technical advice on the implementation of the Basel recommendations (the final phase of Basel III) in the EU. The advice included a quantitative analysis of the estimated sector impact based on data from 189 banks, and a set of policy recommendations. The EBA supported full implementation of Basel III in the EU, in particular an increase in the risk sensitivity in the standardised approaches to measuring credit and operational risks, and constraints on internal modelling where undue variability of model outcomes was observed in the past. According to the EBA, the reforms will increase financial stability while same time allowing the continued use of risk-sensitive approaches. Under conservative assumptions, full implementation of Basel III should increase the minimum capital requirement by 24.4% on average. CNB representatives in individual structures of the EBA actively commented on the issues under discussion while the technical advice was being prepared.

European Systemic Risk Board

On 23 September 2019, the European Systemic Risk Board (ESRB), for the first time in its existence, issued a warning to the Czech Republic on medium-term risks to financial stability. The vulnerabilities highlighted by the ESRB relate to the Czech residential real estate market and mortgage lending.⁴²

The ESRB justified its warning mainly with reference to overvaluation and continued growth in house prices (which was outpacing growth in household income), rapid growth in housing loans and the loosening of bank lending standards. Another reason the ESRB gave was that the CNB can only set mortgage lending conditions as a legally non-binding recommendation. Although it praised the CNB's macroprudential policy, the ESRB therefore simultaneously assessed it as "only partially sufficient". With respect to the further possible growth in risks, the ESRB recommended that the CNB have the power to set legally binding limits on credit ratios.⁴³

Cooperation within supervisory colleges and other activities

In 2019, the CNB was involved in nine supervisory colleges for European banking groups, in one case acting as consolidating supervisory authority. As in 2018, the colleges focused mainly on evaluating the risk profiles of supervised entities and assessing group recovery plans.

In 2019, the CNB was also involved in 12 supervisory colleges for European insurance groups. Their activities concentrated mainly on group internal models, compliance with the directive on the taking-up and pursuit of the business of insurance and reinsurance (Solvency II) and risk assessments of supervised insurance companies.

Cooperation on international standards for financial market regulation and supervision

In 2019, the CNB was actively involved in the activities of the International Organization of Securities Commissions (IOSCO). IOSCO's work in 2019 focused, among other things, on crypto-assets (the regulatory approach to crypto-assets and investment funds with exposures to them), the use of new technology in the supervisory area, sustainable finance, the potential impacts of market fragmentation in securities and derivatives markets, the impact of passive investing on capital markets, the use of leverage by collective investment funds, the distribution of financial products to retail clients using digital platforms, and cyber risks.

The key areas of work of the International Association of Insurance Supervisors (IAIS) in 2019 included the finalisation of the revision of the insurance core principles, the completion of work on global minimum standards for the effective supervision of internationally active insurance groups, the adoption of a framework to mitigate systemic risk in the insurance sector, and the release of a new global insurance capital standard for a monitoring period to assess its impacts. As part of IAIS, the CNB actively contributed, for example, to an extensive monitoring exercise mapping the sector in the global context.

In 2019, the work of the International Organisation of Pension Supervisors (IOPS) was focused mainly on previously launched projects. These concerned, among other things, supervision of infrastructure investment by pension management companies, recommended procedures for the preparation, presentation and supervision of pension projections, solvency of financial systems, and supervisory approaches to enhance cyber resilience in the private pension sector. The CNB actively participated in the preparation of selected IOPS documents concerning supervisory approaches and exchange of experiences among supervisory authorities on synergies between insurance and pensions.

⁴² In addition to the Czech Republic, the ESRB issued warnings to Germany, France, Iceland and Norway and recommendations to Belgium, Denmark, Finland, Luxembourg, the Netherlands and Sweden. These countries had already been warned in the previous evaluation in 2016 but had not responded sufficiently according to the ESRB.

⁴³ The CNB has in this regard long been pushing for the adoption of the proposed amendment of the Act on the CNB, which, among other things, would grant the CNB the power to set legally binding limits on three credit ratios (LTV, DTI and DSTI).

Part B — Statistical part

Part B of the Financial Market Supervision Report complements Part A mainly with statistical information and data providing a broader overview of the conduct of CNB supervision in 2019. Statements submitted as part of the reporting duty of economic agents subject to CNB supervision are used as the primary source of the selected sectoral data.

I. CREDIT INSTITUTIONS

Table B.1 Numbers of entities in the credit institutions sector

	As of 31 December 2018	Entries in 2019	Exits in 2019	As of 31 December 2019
Credit institutions, total	60	1	3	58
of which:				
Banks ⁱ⁾	23	1	0	24
Branches of foreign banks from EU/EEA	25	0	2	23
Branches of foreign banks from third countries	2	0	0	2
Credit unions	10	0	1	9
Notified credit institutionsⁱⁱ⁾	447	34	15	466
Registered representations of foreign banksⁱⁱⁱ⁾	12	0	0	12

i) Of which five building societies.

ii) In the banking sector, both banks and bank branches operating in other EU/EEA countries provide notification.

iii) Registration of a representation of a foreign bank pursuant to Article 39 of Act No. 6/1993 Coll., on the CNB, does not entitle it to carry on business in the Czech banking sector, but only entitles it to promote the services of its head office in the Czech Republic.

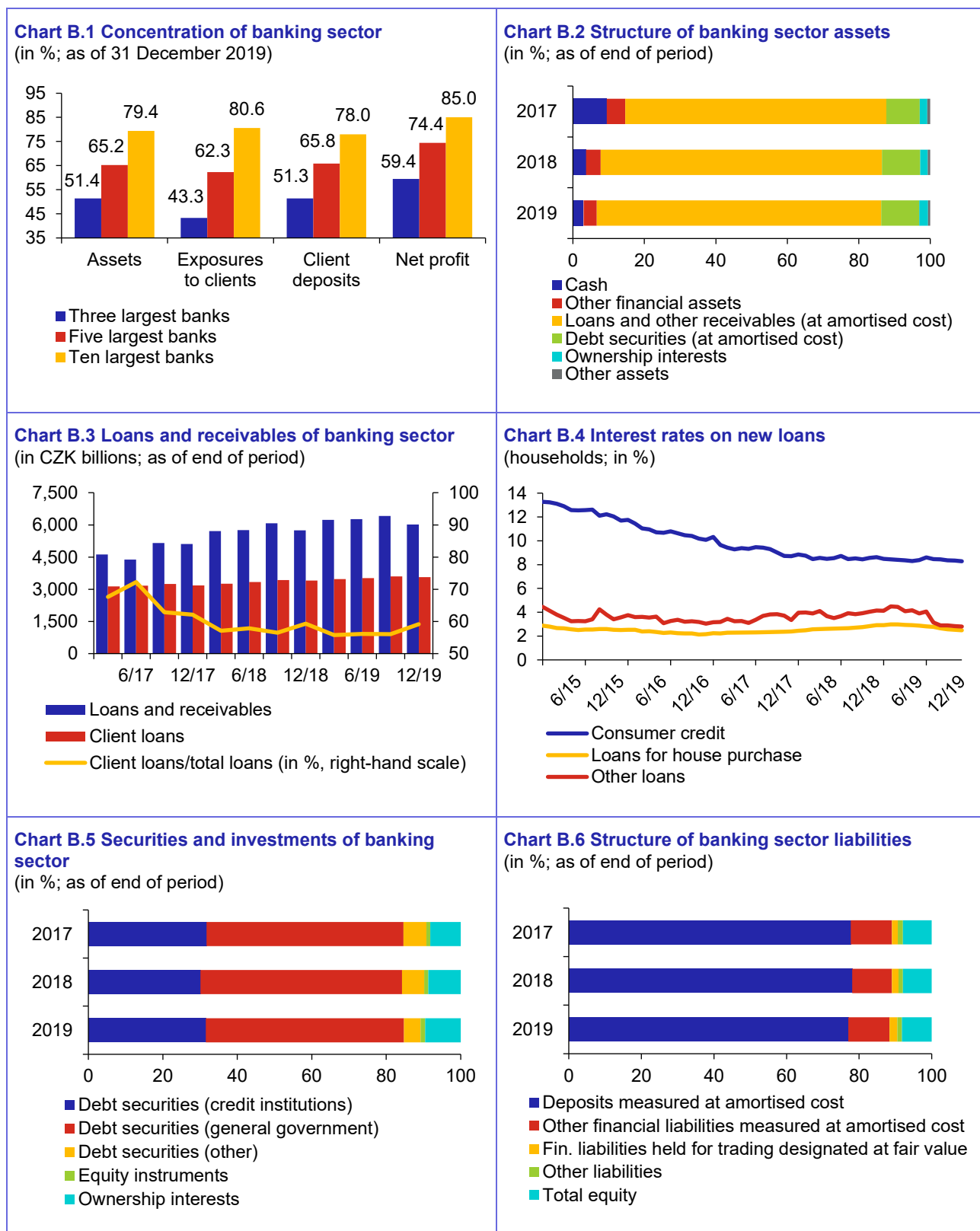
Table B.2 Selected data on the banking sector

	2017	2018	2019
Balance sheet and its structure			
Total assets (in CZK billions)	7,001.9	7,279.2	7,544.8
of which:			
Client loans	3,175.3	3,403.5	3,560.5
Securities and investments, total	1,044.5	1,101.1	1,075.8
Total liabilities	6,445.5	6,702.7	6,923.2
of which:			
Client deposits (measured at amortised cost)	4,288.5	4,573.7	4,870.4
Client deposits/client loans (in %)	135.1	134.4	136.8
Equity	556.4	576.5	621.7
Liquidity			
Quick assets, total (in CZK billions)	2,931.4	2,998.0	3,069.6
Quick assets/assets (in %)	41.9	41.2	40.7
Liquidity coverage ratio (LCR; in %)	182.2	188.3	184.9
Asset quality			
Non-performing client exposures (in CZK billions)	144.8	116.7	93.1
Non-performing client exposures/total client exposures (in %)	4.4	3.4	2.6
Coverage ratio of non-performing client loans and advances (in %)	44.4	51.7	54.7

Table B.2 Selected data on the banking sector (continued)

	2017	2018	2019
Profits			
Sector's after-tax profit (in CZK billions)	75.4	81.4	90.9
Financial profit (in CZK billions)	176.3	187.2	197.9
Administrative expenses (in CZK billions)	73.6	76.7	77.7
Cost-to-income ratio (CIR; in %)	45.2	44.6	44.6
Net interest margin (in %)	1.68	1.82	1.94
RoE (in %)	16.95	17.46	18.08
RoA (in %)	1.08	1.10	1.16
Capitalisation			
Regulatory capital, total (in CZK billions)	471.8	493.5	539.9
of which:			
Tier 1	457.7	480.2	527.2
Tier 2	14.0	13.3	12.7
Capital ratio (in %)	19.3	19.6	21.3
Tier 1 capital ratio (in %)	18.7	19.1	20.8
Leverage ratio (in %)	6.7	6.7	7.1

Selected data on the banking sector – charts



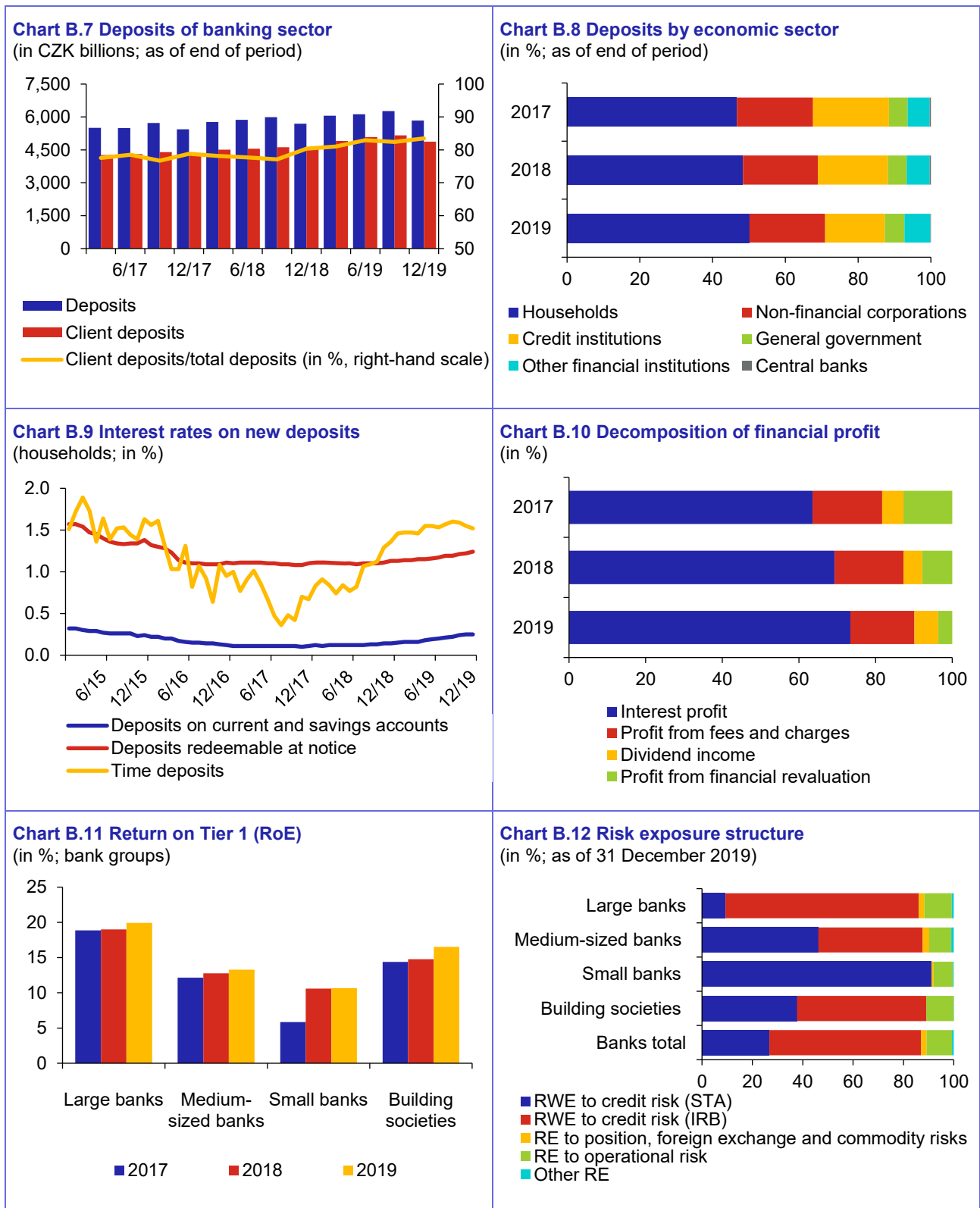


Table B.3 Selected data on the credit unions sector

	2017	2018	2019
Number of credit union members	30,850	22,592	12,222
Total assets (in CZK millions)	23,080.8	20,212.7	10,153.6
of which:			
Loans and receivables	14,836.1	14,668.9	7,274.8
Liabilities (in CZK millions)	19,479.1	16,582.3	8,407.3
of which:			
Deposits (measured at amortised cost)	18,963.3	15,899.8	8,118.6
Equity (in CZK millions)	3,601.6	3,630.4	1,746.3
Total capital ratio (in %)	18.9	21.1	29.1
Non-performing loans/total loans provided (in %)	22.1	28.1	24.1
After-tax profit (in CZK millions)	-80.4	-33.2	-38.4

II. INSURANCE COMPANIES

Table B.4 Numbers of entities in the insurance sector

	As of 31 December 2018	Entries in 2019	Exits in 2019	As of 31 December 2019
Insurance companies	47	2	2	47
of which:				
Domestic insurance companies	27	1	1	27
Branches of insurance companies from EU/EEA	20	1	1	20
Reinsurance companies	1	0	0	1
Notified insurance companiesⁱ⁾	960	62	40	982
Accredited entities	0	19	1	18

i) In the insurance sector, both insurance companies and their branches operating in other EU/EEA countries provide notification.

Table B.5 Selected data on the insurance sectorⁱ⁾

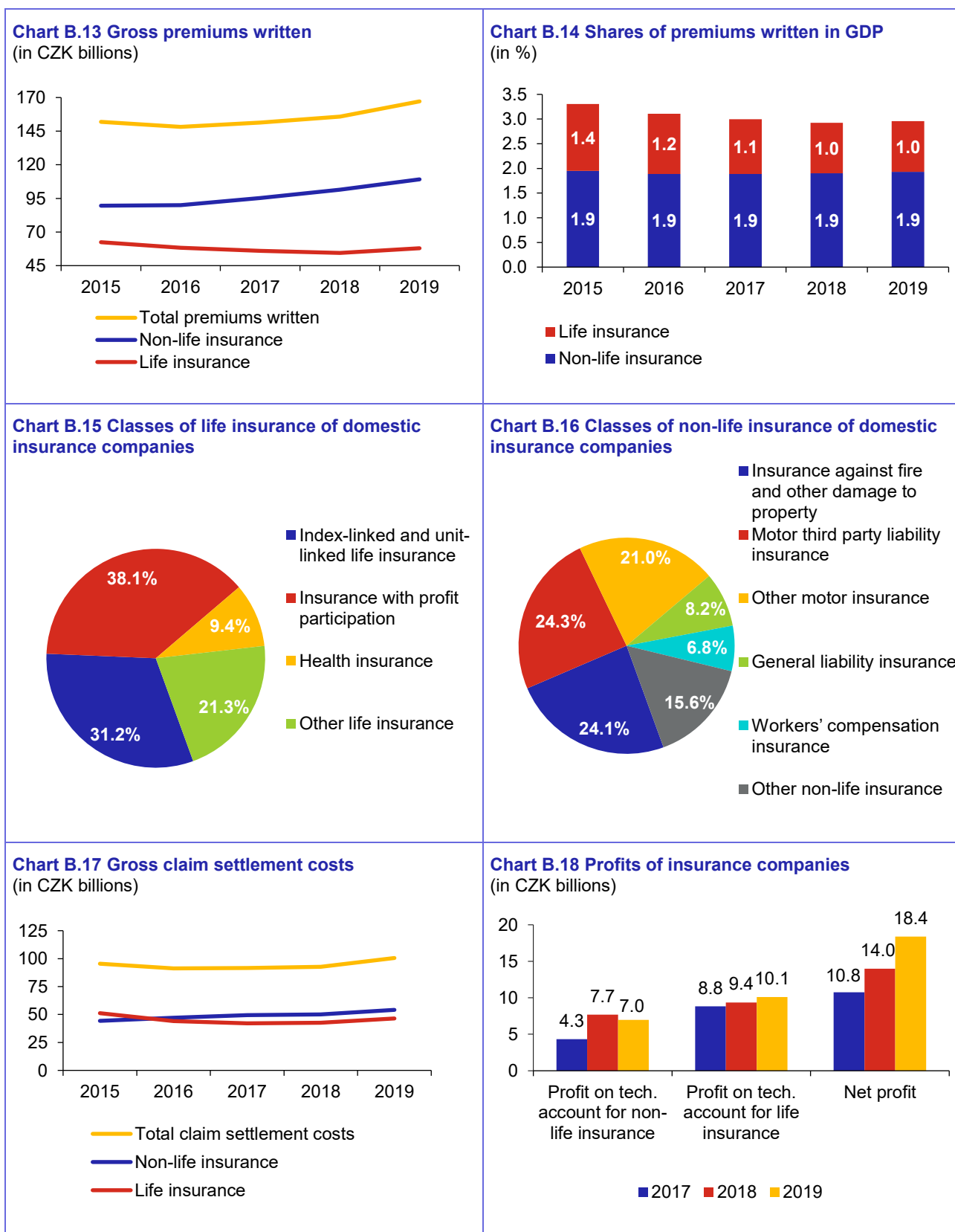
	2017	2018	2019
Balance sheet and its structure			
Total assets (in CZK billions)	486.2	491.6	466.0
Total assets (domestic insurance companies)	434.8	444.6	411.8
of which:			
Investments	312.6	324.6	285.8
Investments of life insurance where investment risk is borne by policy holders	74.8	70.6	75.6
Total liabilities	413.0	403.1	389.6
of which:			
Technical provisions	246.4	242.0	236.4
Provision for life insurance where investment risk is borne by policy holders	93.2	88.2	98.3
Equity	73.2	88.5	76.4
Premiums written			
Gross premiums written (in CZK billions)	151.4	155.8	167.1
of which:			
Life insurance	56.1	54.4	58.0
of which: Insurance premiums ceded to reinsurers	4.4	4.5	4.6
Non-life insurance	95.3	101.4	109.2
of which: Insurance premiums ceded to reinsurers	27.2	27.7	28.9
Claim settlement costs			
Gross claim settlement costs (in CZK billions)	91.6	92.6	100.6
of which:			
Life insurance	42.1	42.6	46.4
Non-life insurance	49.5	50.0	54.2

i) The data exclude the Czech Insurers' Bureau, the Export Guarantee and Insurance Corporation and VIG RE zajišťovna, a.s.

Table B.5 Selected data on the insurance sector (continued)

	2017	2018	2019
Profits			
After-tax profit (in CZK billions)	10.8	14.0	18.4
RoE (in %)	14.7	15.8	24.1
RoA (in %)	2.2	2.9	3.9
Net profit/earned premiums (in %)	9.1	11.4	14.0
Capital adequacy			
Median ratio of eligible own funds to SCR (in %)	239	207	202
Median ratio of eligible own funds to MCR (in %)	402	404	310

Selected data on the insurance sector – charts



III. PENSION MANAGEMENT COMPANIES AND RETIREMENT FUNDS

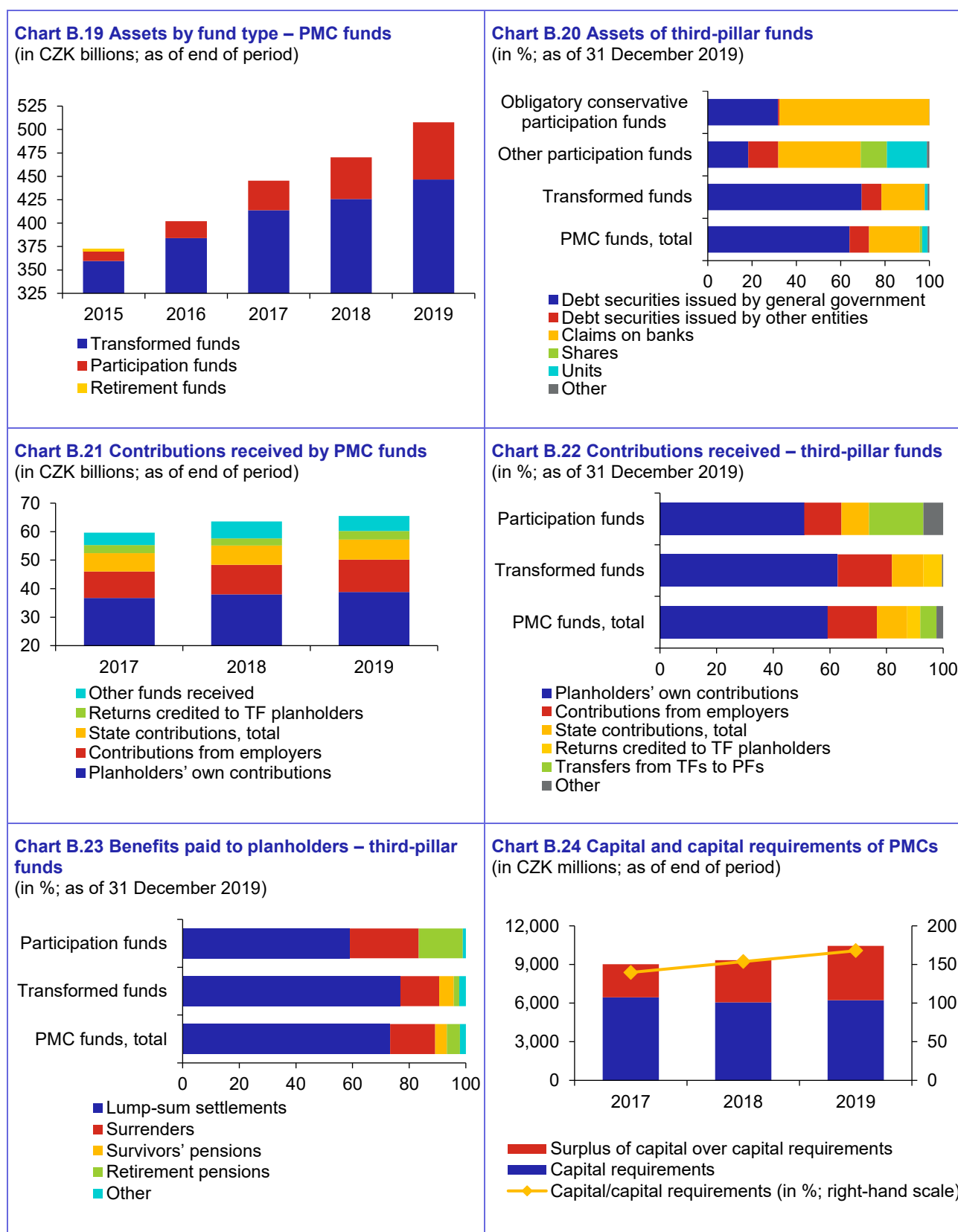
Table B.6 Numbers of entities in the PMCs sector

	As of 31 December 2018	Entries in 2019	Exits in 2019	As of 31 December 2019
PMCs	8	0	0	8
Transformed funds	8	0	0	8
Participation funds	28	2	0	30
Accredited entities	13	1	2	12
Notified foreign institutions for occupational retirement provision	1	0	0	1

Table B.7 Selected data on the PMCs sector

	2017	2018	2019
Numbers of third-pillar participants (in thousands)	4,453.3	4,439.1	4,440.1
of which:			
Number of supplementary pension savings planholders	762.8	967.0	1,137.4
Number of private pension scheme planholders	3,690.5	3,472.1	3,302.7
Assets of third-pillar funds (in CZK billions)	445.4	470.3	507.7
Contributions received (in CZK billions)	59.7	63.6	65.5
Capital/capital requirements	1.4	1.5	1.7
Net profit (in CZK billions)	1.4	1.4	1.9

Selected data on the PMCs sector – charts



IV. INVESTMENT FIRMS

Table B.8 Numbers of entities in the investment firm sector

	As of 31 December 2018	Entries in 2019	Exits in 2019	As of 31 December 2019
Investment firms	37	2	1	38
of which:				
Banks	16	0	0	16
Non-banks	21	2	1	22
Branches of investment firms	42	2	4	40
of which:				
Banks	15	0	1	14
Non-banks	27	2	3	26
Accredited entities	9	4	1	12
Notified investment services providers	1,967	133	85	2,015

Table B.9 Selected data on the investment firms sector

	2017	2018	2019
Risk exposures (non-bank investment firms; in CZK billions)	11.4	12.0	12.2
T1 capital ratio (in %)	21.4	22.2	22.0
After-tax profit (non-bank investment firms; in CZK millions)	791.3	631.3	650.3

V. MANAGEMENT COMPANIES AND INVESTMENT FUNDS

Table B.10 Numbers of capital market entities

	As of 31 December 2018	Entries in 2019	Exits in 2019	As of 31 December 2019
Management companies	30	3	0	33
Main administrators	1	0	0	1
Branches of foreign management companies	1	1	0	2
Investment funds with legal personality	138	28	10	156
of which:				
Autonomous funds	29	2	1	30
Mutual funds	242	20	10	252
of which:				
Standard funds	62	0	0	62
Depositories	5	1	0	6
Notified UCITS funds	1,416	134	133	1,417
Notified AIFs ⁱ⁾ excluding EuVECA ⁱⁱ⁾ and EuSEFs ⁱⁱⁱ⁾	162	79	19	222
Notified EuVECA funds	48	30	5	73
Notified EuSEF funds	1	0	0	1
Notified UCITS management companies	45	9	1	53
Notified alternative investment fund managers	49	19	0	68
Entities conducting asset administration comparable to asset management pursuant to Article 15 of the AMCIF	80	82	11	151

i) AIFs: alternative investment funds (special funds and funds for qualified investors).

ii) EuVECA: European Venture Capital Funds.

iii) EuSEFs: European Social Entrepreneurship Funds.

Table B.11 Selected data on the investment sector

	2017	2018	2019
Assets managed by CIFs (in CZK billions)	315.2	320.2	390.9
of which:			
Bond funds	83.4	73.6	121.0
Mixed funds	139.6	140.2	143.1
Equity funds	62.8	61.9	76.3
Money market funds	1.5	6.8	0.0
Real estate funds	26.6	36.8	48.5
Other funds	1.2	1.0	2.0
Assets managed by FQIs (in CZK billions)	168.9	202.5	220.3
Capital/capital requirements of management companies	6.4	5.9	6.1
Net profit of management companies (in CZK billions)	1.0	1.1	1.2
Net sales/redemptions (in CZK billions)	42.2	23.0	45.4

Selected data on management companies and investment funds – charts

Chart B.25 Assets of domestic investment funds
(in CZK billions; as of end of period)

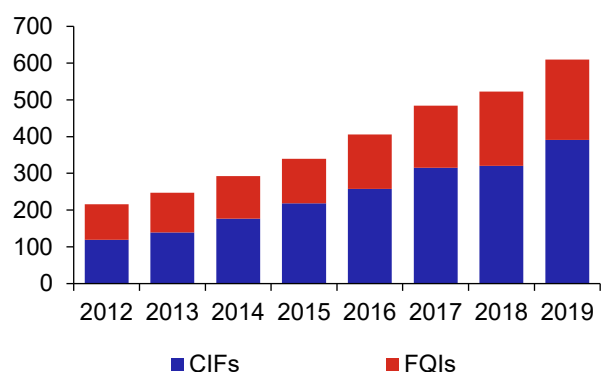


Chart B.26 Assets by fund type – CIFs
(in CZK billions; as of end of period)

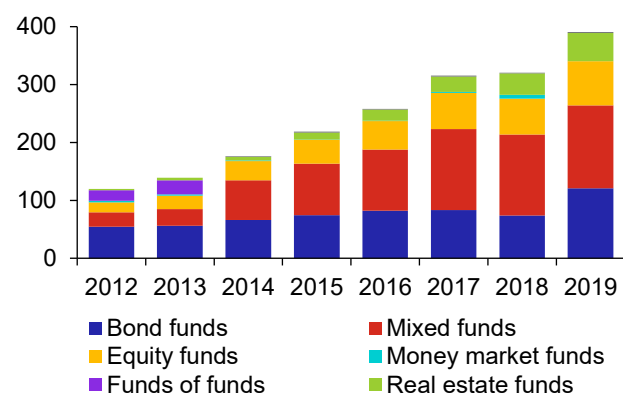


Chart B.27 Asset structure by fund type – CIFs
(in %; as of 31 December 2019)

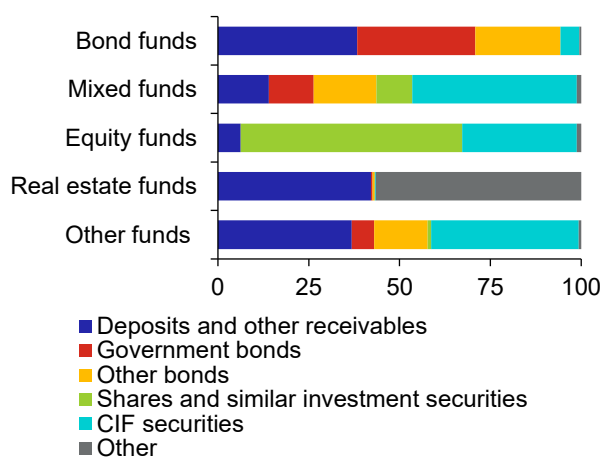
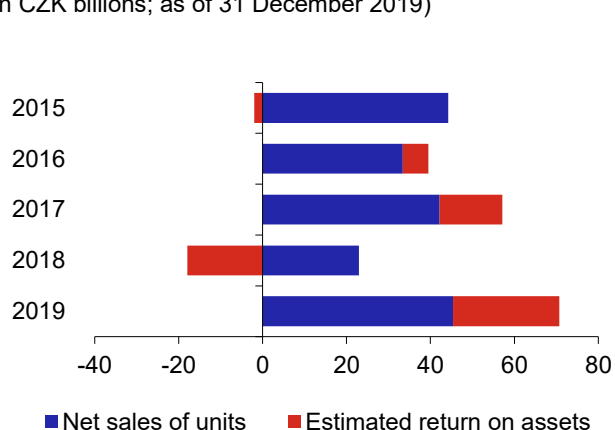


Chart B.28 Decomposition of year-on-year change in assets – CIFs
(in CZK billions; as of 31 December 2019)



VI. NUMBERS OF OTHER FINANCIAL MARKET ENTITIES

Table B.12 Numbers of entities in the sector of payment institutions and electronic money issuers

	As of 31 December 2018	Entries in 2019	Exits in 2019	As of 31 December 2019
Payment institutions	25	3	2	26
Branches of payment institutions	13	3	3	13
Electronic money institutions	2	0	1	1
Branches of electronic money institutions	2	1	0	3
Notified electronic money institutions	172	59	3	228
Notified payment institutions	391	100	17	474
Small-scale payment service providers	157	6	63	100
Small-scale electronic money issuers	21	2	3	20

Table B.13 Numbers of entities in the sector of handlers of domestic banknotes and coins

	As of 31 December 2018	Entries in 2019	Exits in 2019	As of 31 December 2019
Handlers of domestic banknotes and coins	5	0	0	5

Table B.14 Numbers of entities in the consumer credit providers sector

	As of 31 December 2018	Entries in 2019	Exits in 2019	As of 31 December 2019
Non-bank consumer credit providers	87	4	5	86
Accredited entities	19	2	2	19

Table B.15 Numbers of entities in the retail distributors sector

	As of 31 December 2018	Entries in 2019	Exits in 2019	As of 31 December 2019
Investment intermediaries	215	1	39	177
Tied agents (capital market)	17,901	4,274	5,662	16,513
Entities authorised to distribute pension products:				
Investment intermediaries	96	4	9	91
Non-bank investment firms	1	0	0	1
Bank investment firms	6	0	0	6
Tied agents	9,984	2,862	2,322	10,524
Tied agents of PMCs	6	1	4	3
Insurance intermediaries and independent loss adjusters ⁱ⁾	178,616	43,477	183,612	38,481
Notified insurance intermediaries	6,508	337	233	6,612
Independent consumer credit intermediaries	283	63	37	309
Tied agents (consumer credit)	15,095	6,264	4,334	17,025
Intermediaries of specific-purpose consumer credit	942	183	155	970

i) The figure does not include foreign intermediaries listed in the register due to notifications of insurance intermediation from another EU/EEA Member State. As from 1 March 2019, independent loss adjusters are not subject to regulation under the Insurance and Reinsurance Distribution Act and are regulated under the Trades Licensing Act instead. Therefore, the figure as of 31 December 2019 already covers insurance intermediaries only.

Table B.16 Numbers of entities in the bureau de change sector

	As of 31 December 2018	Entries in 2019	Exits in 2019	As of 31 December 2019
Bureaux de change	999	38	85	952

VII. SECURITIES ISSUES AND REGULATED MARKETS

Table B.17 Numbers of issuers and market infrastructure entities

	As of 31 December 2018	Entries in 2019	Exits in 2019	As of 31 December 2019
Issuers of securities admitted to trading on a European regulated market ⁱ⁾	117	16	11	122
Market infrastructure ⁱⁱ⁾	10	0	0	10

ⁱ⁾ The figure includes all issuers (both domestic and foreign) whose securities are admitted to trading on a regulated market in the Czech Republic, issuers based in the Czech Republic whose securities are admitted to trading on a regulated market in another EU Member State, and also issuers based outside the Czech Republic whose securities are admitted to trading on a regulated market in the Czech Republic.

ⁱⁱ⁾ The role of entities in the position of a regulated market operator, a multilateral trading facility operator, an organised trading facility operator, an operator of settlement systems with settlement finality, a central depository and a benchmark administrator.

Table B.18 Selected data on the securities market

	2017	2018	2019
Number of share issues (PSE)	23	53	54
Total share trading volume (PSE; in CZK billions)	138.8	142.6	108.8
Market capitalisation of shares (PSE; in CZK billions)	1,252.6	21,262.0	22,054.2
Total share trading volume (RM-S; in CZK billions)	3.1	2.8	2.2

Table B.19 Overview of issuers of securities admitted to trading on a regulated market in the Czech Republic

	2017	2018	2019
Issuers of securities admitted to trading on a regulated market in the Czech Republic	105	117	122
of which:			
Issuers whose home Member State is the Czech Republic	94	104	112
of which:			
Issuers having their registered address in the Czech Republic	88	96	105
Issuers having their registered address in another EU Member State	5	18	5
Issuers having their registered address outside the EU	1	3	2
Issuers exempt pursuant to Article 119c of the Capital Market Undertakings Act	24	32	36
Issuers fully subject to CNB supervision	70	72	76
of which:			
Issuers having their registered address in the Czech Republic	67	67	72
Issuers having their registered address in another EU Member State	2	3	2
Issuers having their registered address outside the EU	1	2	2
Share issuers	46	46	46

VIII. AGGREGATE INFORMATION ON SUPERVISION

Table B.20 Numbers of examinations started by sector

	2017	2018	2019
Banks	20	20	21
Credit unions	5	4	1
Insurance companies	10	9	9
PMCs and retirement funds	1	0	9
Investment firms – non-banks	3	2	3
Branches of foreign investment firms	1	1	0
Management companies and investment funds	2	4	4
Bureaux de change	37	28	16
Payment service providers	7	0	12
Electronic money issuers	0	0	1
Consumer credit providers	0	4	16
Accredited entities	7	14	0
Retail distributors	21	28	33
Handlers of domestic banknotes and coins	2	1	0

Table B.21 Overview of offences

	2019
Breakdown according to Article 45d(2) of the Act on the CNB	
Number of petitions received	202
Number of proceedings opened	125
Number of cases deferred	77
Number of proceedings discontinued	10
Number of final and conclusive decisions	117
Total fines imposed	CZK 35,070,000
Number of decisions waiving the imposition of a penalty	0
Number of appeals submitted ⁴⁴	15

⁴⁴ Of the total number of 15 appeals submitted, the first-instance decision was confirmed by the Bank Board (the second instance) in 11 cases, the fine was lowered and the rest of the first-instance decision was confirmed in one case, a part of the statement of the decision was modified and the rest of the decision was confirmed in two cases, a part of the decision was revoked and terminated and the rest of the appeal was refused and the decision confirmed in one case.

Table B.22 Penalty administrative proceedings

Area of imposition of penalty	Number of penalty administrative proceedings continuing from 2018	Number of penalty administrative proceedings opened in 2019	Number of penalty administrative proceedings closed in 2019	Total fines imposed (in CZK thousands) ⁴⁵
Credit institutions	6	10	10	12,000
Insurance	6	12	13	400
Capital market	19	44	44	14,885
Violation of the Act on Bureau-de-change Activity	5	14	14	2,730
Consumer protection	1	0	0	0
Payment system	21	50	44	1,050
Circulation of banknotes and coins	3	5	7	1,325
Act on the CNB	0	0	0	0
Consumer credit	6	25	25	2,995
Anti-money laundering and combating the financing of terrorism	0	8	8	1,385
Total	67	168	165	36,770

⁴⁵ While Table B.21 shows an overview of offences under Act No. 250/2016 Coll., on Liability for Administrative Offences and Proceedings Thereon, Table B.22 shows fines imposed pursuant to all penalty decisions, including those opened before this Act took effect.

Table B.23 Financial market entities in liquidation⁴⁶

	As of 31 December 2018	Entries in 2019	Exits in 2019	As of 31 December 2019
Banks	2	2	0	4
Credit unions	4	0	1	3
Insurance and reinsurance companies	0	0	0	0
Management companies	3	0	0	3
Investment funds	9	0	0	9
Mutual funds	8	3	6	5
PMCs	0	0	0	0
Investment firms	1	0	0	1
Total	27	5	7	25

Table B.24 Applications for information

	2016	2017	2018	2019
Applications from foreign regulators	29	35	46	48
Applications under Act No. 106/1999 Coll., on Freedom of Information	53	51	79	71

Table B.25 Overview of submissions from the public

	2018	2019
Credit institutions	696	872
of which:		
Conduct of business and consumer protection	550	667
Consumer credit provision	146	205
Insurance	510	570
PMCs and retirement funds	29	37
Non-bank investment firms	77	72
Management companies and investment funds ¹⁾	21	21
Money-changing activities	338	174
Payment service providers and electronic money issuers	66	51
Non-bank consumer credit providers	200	195
Retail distributors	301	215
of which intermediation of:		
Insurance products	203	142
Investment products	49	24
Consumer credit	49	49

i) Including similar foreign entities.

⁴⁶ A total of seven entities ceased to be subject to CNB supervision as a result of the completion of liquidation: one credit union (První společná družstevní záložna "v likvidaci") and six mutual funds in liquidation. The liquidations of two banks (Kreditní a průmyslová banka a.s. v likvidaci and Banka Bohemia, a.s. – v likvidaci) were renewed in 2019 based on court decisions and three mutual funds entered liquidation.

Table B.26 Central Credit Register

	2016	2017	2018	2019
Number of registered borrowers	630,549	633,018	632,726	641,579
of which:				
Natural persons (entrepreneurs)	331,540	326,683	322,364	322,192
Legal entities	299,009	306,335	310,362	319,387
Total volume of loans outstanding (in CZK billions)	1,696	1,722	1,830	1,869
Number of CCR application users	2,259	2,258	2,246	2,265
Ad hoc enquiries about credit commitments (thousands per year)	299	308	361	367
Number of enquiries about client credit commitments in monthly reports (thousands per year)	4,215	4,372	4,506	5,945
Number of extracts made for clients per year	536	569	488	460

IX. THE CNB'S REGULATORY ACTIVITIES IN 2019

CNB decrees and provisions

- Decree No. 2/2019 Coll., on records of covered blocks.
- Decree No. 150/2019 Coll., on reporting of security and operational risks in the payment system area.
- Decree No. 326/2019 Coll., amending Decree No. 426/2013 Coll., on the submitting of statements by credit unions to the Czech National Bank.
- Decree No. 325/2019 Coll., amending Decree No. 346/2013 Coll., on the submitting of statements by banks and foreign bank branches to the Czech National Bank.
- Decree No. 327/2019 Coll., amending Decree No. 424/2017 Coll., on the reporting duties of some entities operating on the capital market.
- Provision of a general nature regarding product intervention in relation to binary options of 18 June 2019.
- Provision of a general nature regarding product intervention in relation to contracts for difference of 25 July 2019.

Official information

- Official Information of 19 February 2019, on the annual target level of contributions to the Resolution Fund determined for 2019.
- Official Information of 1 March 2018 regarding the method for calculating risk weights for the purposes of setting contributions to the Deposit Insurance Fund, as amended by Official Information No. 5/2019 CNB Bull. of 5 March 2019.
- Official Information of 20 March 2019 publishing the address of the CNB's webpage containing information about customer rights under the Act on Bureau de Change Activity.
- Official information of 12 September 2019, on reporting of operational and security risks.
- Official information of 27 November 2019 on the performance of the activities of banks, credit unions and investment firms – individual valuation of immovable property collateral for non-performing exposures.
- CNB information of 21 May 2019, on EBA Guidelines on specification of types of exposures to be associated with high risk.
- CNB information of 28 June 2019 on the issuance of ESMA Guidelines on Internalised Settlement Reporting under Article 9 of CSDR.
- CNB information of 26 August 2019 on EBA Guidelines for the estimation of LGD appropriate for an economic downturn.
- CNB information of 30 September 2019 on EBA Guidelines on outsourcing arrangements.

Selected explanatory opinions

- Reporting fraud pursuant to the Payment System Act
- Regarding some provisions of the Act on Insurance and Reinsurance Distribution
- The annual statement of activities of an insurance agent and an insurance broker for 2018
- Regarding the duty to pass a professional examination pursuant to the Capital Market Undertakings Act for the distribution of supplementary pension savings
- Information about the manner of investment strategy implementation in the statute of a collective investment fund
- Offering securities to employees free of charge
- The definition of a public offer of securities
- The document containing information on the number and nature of securities and the reasons for, and details of, an offer
- Language of the prospectus
- Regarding the duty to draw up a prospectus
- Offering non-transferable options to employees
- A group of entities as a feature of a public offer for the purposes of the duty to draw up a prospectus
- Advertisement and public offer
- Conversion of amounts into euro for the purposes of the application of some exemptions in a public offer of securities
- Extent of the Czech National Bank's approval activities in proceedings on the approval of a prospectus
- Public offers of multiple securities issues
- Exemption from the duty to publish a prospectus – limit of 150 persons for an offer in multiple EU Member States
- Regarding the Act on Bureau de Change Activity
- Regarding licensing proceedings for bureaux de change
- Regarding the definition of country of origin according to the AML Decree
- Regarding taking into consideration a customer's business activity
- Regarding the duty to update customer data under the AML Decree
- Regarding the approach to high-risk jurisdictions in the AML context
- Regarding the definition of unusual and unjustified transactions from the AML perspective
- Regarding opaque customer ownership structure in the AML context

Additional selected information

- CNB notification for entities providing payment services on the basis of authorisation by the CNB under the Payment System Act.
- Infographic for consumers “Key advice for your protection when choosing internet or mobile banking services”.

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Abbreviations

AIF	alternative investment fund
AIRD	Act on Insurance and Reinsurance Distribution
AMCIF	Act on Management Companies and Investment Funds
AML/CFT	anti-money laundering/combating the financing of terrorism
BRRD	Bank Recovery and Resolution Directive
CCR	Central Credit Register
CIF	collective investment fund
CIR	cost-to-income ratio (ratio of administrative expenses and depreciation of tangible assets to total net operating income)
CMUA	Capital Market Undertakings Act
CRD IV	Capital Requirements Directive IV
CRR	Capital Requirements Regulation
CSDR	Central Securities Depositories Regulation
DCC	dynamic currency conversion
DSTI	debt service-to-income
DTI	debt-to-income
EBA	European Banking Authority
EEA	European Economic Area
EIOPA	European Insurance and Occupational Pensions Authority
EMIR	European Market Infrastructure Regulation
ESAs	European Supervisory Authorities
ESMA	European Securities and Markets Authority
ESRB	European Systemic Risk Board
EuSEF	European Social Entrepreneurship Fund
EuVECA	European Venture Capital Fund
FAQs	frequently asked questions
FQI	fund for qualified investors
IAIS	International Association of Insurance Supervisors
IAS	International Accounting Standards
ICO	initial coin offering
IDD	Insurance Distribution Directive
IF	investment firm
IFRS	International Financial Reporting Standards
IOPS	International Organisation of Pension Supervisors

IOSCO	International Organization of Securities Commissions
IPID	Insurance Product Information Document
IRB	internal ratings based approach
KID	key information document
LCR	liquidity coverage ratio
LGD	loss given default
LI	life insurance
LTG	long-term guarantee
LTV	loan-to-value
MCR	minimum capital requirement
MiFID	Markets in Financial Instruments Directive
MiFIR	Markets in Financial Instruments Regulation
MMoU	Multilateral Memorandum of Understanding
MREL	minimum requirement for own funds and eligible liabilities
ORSA	Own Risk and Solvency Assessment
OTC	over-the-counter
PEPP	pan-European personal pension product
PMC	pension management company
PRIIPs	packaged retail and insurance-based investment products
PSD	Payment Services Directive
PSE	Prague Stock Exchange
QA	quick assets
RE	risk exposure
RM-S	RM-SYSTÉM, česká burza cenných papírů a.s.
RTS	regulatory technical standards
RWE	risk-weighted exposure
SCR	solvency capital requirement
SEPA	Single Euro Payments Area
SREP	supervisory review and evaluation process
SRMR	Single Resolution Mechanism Regulation
SRP	supervisory review process
STA	standardised approach
TARGET2	Trans-European Automated Real-time Gross Settlement Express Transfer
TF	transformed fund
UCITS	undertaking for collective investment in transferable securities

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