

**OFFICIAL INFORMATION  
OF THE CZECH NATIONAL BANK  
of 13 December 2002**

**regarding the assessment of the competence, trustworthiness and experience of persons  
nominated for executive managerial positions in banks and foreign bank branches.**

The Czech National Bank (hereinafter referred to as the “CNB”) assesses, with regard to Article 4(3)(d) of Act No. 21/1992 Coll., on Banks, as amended (hereinafter referred to as the “Act on Banks”), the competence, trustworthiness and experience of persons who, on basis of a contract of employment or other contract, are nominated for executive managerial positions in a bank with which are associated the powers and responsibilities laid down in the Articles of Association (hereinafter referred to as “bank officers”), or who, with regard to Article 5(4)(c) of the Act on Banks, are nominated for executive managerial positions in a branch of a foreign bank.

The CNB also assesses the competence, trustworthiness and experience of persons newly nominated as officers of an existing bank or as executive managers of an existing branch of a foreign bank (hereinafter referred to as the “branch”), with regard to Article 16(2)(b) of the Act on Banks, which requires banks to notify the CNB of proposed personnel changes in a statutory body of the bank and in the positions of the bank’s officers, including the submission of documents necessary for evaluating their competence, trustworthiness and experience.

For the purposes of this Official Information, persons nominated as bank officers and as executive managers of a branch (hereinafter referred to as “proposed officers”) mean, in the case of a bank, the members of its board of directors, or, in the case of a branch, its manager.

# Criteria for Assessing Proposed Officers

## I

### General Criteria

In accordance with Article 4(3)(d) and Article 5(4)(c) of the Act on Banks, and having regard to Article 16(2)(b) of the Act on Banks, the Czech National Bank assesses whether a proposed officer is competent, trustworthy and experienced.

## II

### Competence

1. When assessing the condition of competence, the CNB determines and examines whether the proposed officer:
  - a) has sufficient professional qualifications,
  - b) fulfils the prerequisites for competency in management, and in particular whether he/she has sufficient knowledge in the area of banking risk management and the internal management and control system and can demonstrate his/her ability to apply that knowledge in practice.
2. University graduates with sufficient and relevant professional experience **are deemed by the CNB to have sufficient professional qualifications** (see Article IV(2) hereof).
3. **The CNB does not deem** the following proposed officers **to be competent**:
  - a) persons who have ever been the statutory body, members of the statutory body, members of the supervisory board or proctors in a legal entity on the date, or during a three-year period prior thereto, when:
    - aa) in respect of its assets bankruptcy was declared, composition was confirmed or a bankruptcy petition was dismissed for lack of assets,
    - ab) it was lawfully imposed with a fine or a duty to pay compensation for damages for a serious or repeated breach of statutory duty that led to harm being caused to the creditors, clients, participants or shareholders of joint-stock investment funds, to the violation of the integrity or transparency of the financial market, or to the misuse of confidential information,
    - ac) its permit, licence or other authorisation to carry on business activities was lawfully suspended or revoked, or its permit, licence or other authorisation to carry on business activities expired, unless this was done or happened at its own request,
    - ad) conservatorship was lawfully imposed on it by a competent supervisory or state inspection authority;
  - b) persons:
    - ba) in respect of whose assets or the assets of a legal entity controlled by them bankruptcy has ever been declared, composition confirmed or a bankruptcy petition dismissed for lack of assets,

- bb) whose licence to carry on business activities has ever been lawfully suspended or cancelled, unless this was done at their own request; the same applies to any legal entity controlled by such persons.
4. When assessing the criteria referred to in paragraph 3, the CNB takes into account whether the proposed officer:
- a) demonstrably took steps to rectify the shortcomings,
  - b) was in a situation where he/she could not, even by exercising due diligence, have influenced or prevented the objective facts (e.g. a breach of legal duties before he/she took up the position).
5. **The CNB will have serious doubts about the competence of proposed officers** in the following cases:
- a) persons who have ever been the statutory body, members of the statutory body, members of the supervisory board or proctors in a legal entity when there occurred a serious or repeated breach of statutory duty that led to harm being caused to the creditors, clients, participants or shareholders of joint-stock investment funds for which a fine or a duty to pay compensation for damages was lawfully imposed on them;
  - b) persons who have ever held executive managerial positions in a bank or other legal entity subject to supervision or state inspection and did not ensure the establishment of:
    - ba) functional and effective organisation of the managed section, in particular as regards clear and complete delimitation of the powers, responsibilities and job descriptions of subordinate employees, the appropriateness and competence of subordinate employees, and an effective system of information sharing,
    - bb) procedures for risk identification and management within the managed section, including the continuous measurement, monitoring and control of risks and the re-evaluation of the adequacy of the set procedures, and compliance with regulations, legal rules, internal directives and limits,
    - bc) procedures for control activities within the managed section, including regular verification of the compliance therewith and adequacy thereof, and procedures for reducing the possibility of conflicts of interests (separation of incompatible positions) and for rectifying any shortcomings detected,
    - bd) a functional information-flow system providing up-to-date, reliable and complete information essential for decision-making within the bank or company, vis-à-vis the supervisory or state inspection authority or vis-à-vis the auditors;
  - c) persons in respect of whom a court or supervisory or state inspection authority has ever refused to grant its consent to their selection, nomination or appointment to an executive managerial position, where such consent was required.

### III

#### Trustworthiness

1. When assessing the condition of trustworthiness, the CNB determines and examines whether the proposed officer has ever been convicted of a criminal offence, whether, in connection with the execution of their profession, employment or position, a fine or a duty

to pay compensation for damages has ever been lawfully imposed on them, whether they have always discharged their duties vis-à-vis the supervisory or state inspection authority, and whether they have observed the ethics of business relations and economic competition.

2. The **CNB does not deem** the following proposed officers **to be trustworthy**:
  - a) persons who have ever been lawfully convicted of a wilful criminal offence;
  - b) persons who have ever been lawfully imposed with a fine or a duty to pay compensation for damages for committing a (wilful or negligent) serious or repeated breach of statutory duty that led to significant endangerment or harm being caused to the creditors, clients, participants or shareholders of joint-stock investment funds, to the violation of the integrity or transparency of the financial market, or to the misuse of confidential information;
  - c) persons who have ever, quite evidently, demonstrably and knowingly, given false testimony, given false or deliberately incomplete information in an affidavit or other document, or failed to discharge their duties vis-à-vis the supervisory or state inspection authority for other than objective reasons;
  - d) persons who have seriously violated the ethics of business relations or economic competition, misused confidential information and breached commercial or banking secrecy;
  - e) persons who have ever been expelled from a professional association or chamber, be it domestic or foreign; the same applies to any legal entity controlled by such persons.
3. **The CNB will have serious doubts about the trustworthiness of proposed officers** in the following cases:
  - a) persons who have ever been lawfully convicted of committing a negligent criminal offence in connection with the execution of their profession, employment or position;
  - b) persons who have ever been the statutory body, members of the statutory body, members of the supervisory board or proctors in a legal entity when their application for membership of a stock exchange or a professional association or chamber, be it domestic or foreign, was turned down or when there occurred a serious or repeated breach of statutory duty for which a disciplinary punishment was imposed on them by such a community or who were expelled from such a community;
  - c) persons on whom a disciplinary punishment has ever been imposed by a professional association or chamber, be it domestic or foreign, or whose application to join such a community has ever been turned down.

## IV

### Experience

1. When assessing the condition of experience, the CNB determines and examines whether the proposed officer has acquired sufficient and relevant professional experience and managerial experience in legal entities carrying on business on the domestic or a foreign financial market, or in other legal entities.
2. **The CNB deems the following proposed officers to have sufficient and relevant professional experience:**

- a) persons who have been professionally active for at least four years in legal entities operating on the domestic or a foreign financial market;
- b) persons who have been professionally active for at least four years in the area of risk management, trading on the financial markets, financial management or auditing in legal entities other than those referred to in paragraph 2(a);
- c) persons who have been professionally active for at least four years in a financial-market supervisory or state inspection authority in the Czech Republic or abroad;
- d) persons who have acquired legal, scientific or academic experience in the area of the financial market over a period of at least five years.

**3. The CNB deems the following proposed officers to have sufficient and relevant managerial experience:**

- a) persons who have held an executive managerial position for at least two years in legal entities operating on the domestic or a foreign financial market;
- b) persons who have held an executive managerial position for at least two years in a financial-market supervisory or state inspection authority in the Czech Republic or abroad;
- c) persons who have held an executive managerial position for at least three years in legal entities other than those referred to in paragraph 3(a) and (b).

## **Procedures for Assessing Proposed Officers**

### **V**

#### **Submission of Documents for the Assessment**

The documents to be submitted for the assessment of the competence, trustworthiness and experience of proposed officers are laid down in Article 7(2) of Decree of the CNB No. 166/2000 Coll., stipulating the essential elements of a banking licence application; the essential elements of an application for the consent of the Czech National Bank to acquire or increase a qualifying holding in a bank, to a person concluding a control agreement with a bank or to a person executing a legal act aimed at taking control of a bank; and the essential elements of a notification of a reduction of a qualifying holding in a bank or of forfeiture of the position of parent undertaking in respect of a bank (hereinafter referred to as the “CNB Decree”). These documents form part of the banking licence application in accordance with Articles 4 and 5 of the Act on Banks or, in the case of an existing bank, are submitted as part of the information duty in accordance with Article 16(2)(b) of the Act on Banks prior to the nomination or appointment of the proposed officer. Proposed personnel changes in the statutory body and in the executive managerial positions in an existing bank or in the management of an existing branch are submitted to the CNB by the bank or, the case of a branch, by the head office of the foreign bank (hereinafter referred to as the “submitter”).

### **VI**

#### **Assessment Principles**

1. The CNB assesses the competence, trustworthiness and experience of the proposed officer on the basis of:

- a) documents submitted by the proposed officer in accordance with Article 7 of the CNB Decree,
  - b) the CNB's own findings,
  - c) other documents which the CNB has at its disposal,
  - d) an interview with proposed officer.
2. A committee has been established at the CNB for assessing proposed officers. This committee is an advisory body to the Executive Director of the Banking Supervision Department. It consists of five members, all of whom are members of staff of the CNB.
  3. On the basis of the assessment of the documents and the CNB's own findings the committee may refrain from interviewing the proposed officer, especially where the proposed officer has a long and successful record in management in the banking or financial sector.
  4. The committee is obliged to assess proposed officers impartially and on the basis of all the objectively proved facts.
  5. The members of the committee are obliged to maintain confidentiality regarding the content of the documents and the course of the interview with the proposed officer.<sup>1</sup>

## **VII**

### **The Interview**

1. The CNB notifies the submitter of the date of the interview in writing sufficiently in advance – as a rule two weeks prior to its taking place. This procedure need not be adhered to if this is in the interests of the submitter.
2. The committee conducts the interview with the proposed officer in the Czech language. Persons who are not able to be interviewed in the Czech language should arrange for an interpreter into the Czech language who has knowledge of banking terminology.
3. The content of the interview is as follows:
  - a) the acquisition of information on the scope of the general and specific knowledge of the proposed officer in the banking field, including related legal rules and CNB regulations, or, where appropriate, in related financial sector fields, and in particular the issues of banking risks, the internal management and control system and the system of financial management of legal entities;
  - b) a personal explanation of particular facts, should the submitted documents, the CNB's own findings or other documents that the CNB has at its disposal have given rise to any doubts or inconsistencies regarding those facts.

## **VIII**

### **Notification of the Results of the Assessment**

1. After reviewing all the source materials and, where applicable, the interview itself, the committee will assess the proposed officer.

---

<sup>1</sup> For more details, see Article 50(1) of Act No. 6/1993 Coll., on the Czech National Bank, as amended.

2. When assessing persons in administrative proceedings relating to a banking licence application pursuant to Articles 4 and 5 of the Act on Banks, the CNB proceeds in accordance with the Administrative Procedure Code.
3. When assessing persons in accordance with Article 16(2)(b) of the Act on Banks, the CNB proceeds as follows:
  - a) if the committee adjudges the proposed officer to be incompetent, it will notify the proposed officer of the result of the assessment, giving the reasoning behind its decision and specifying a reasonable time limit for the proposed officer to express his/her opinion;
  - b) on the basis of the source materials referred to in Article VI(1) hereof, and taking into account the recommendations of the committee and any opinion expressed by the proposed officer, the Executive Director of the Banking Supervision Department will decide to publish the CNB announcement of the result of the assessment of the proposed officer;
  - c) the CNB announcement of the result of the assessment of the proposed officer is sent to the submitter; a copy of this announcement is also sent to the proposed officer;
  - d) where the CNB adjudges the proposed officer to be incompetent to work in management, the CNB announcement of the result of the assessment has the following wording: “The CNB does not recommend the proposed officer for the position of ...”. The CNB will also specify in this announcement its reasons for adjudging the proposed officer to be incompetent;
  - e) where the CNB has no objections to the proposed officer working in management, the CNB announcement of the result of the assessment has the following wording: “The CNB has no objections ...”.

Pavel Racoča  
Bank Board member