

Regulation and Supervision of the Financial Market in the Slovak Republic

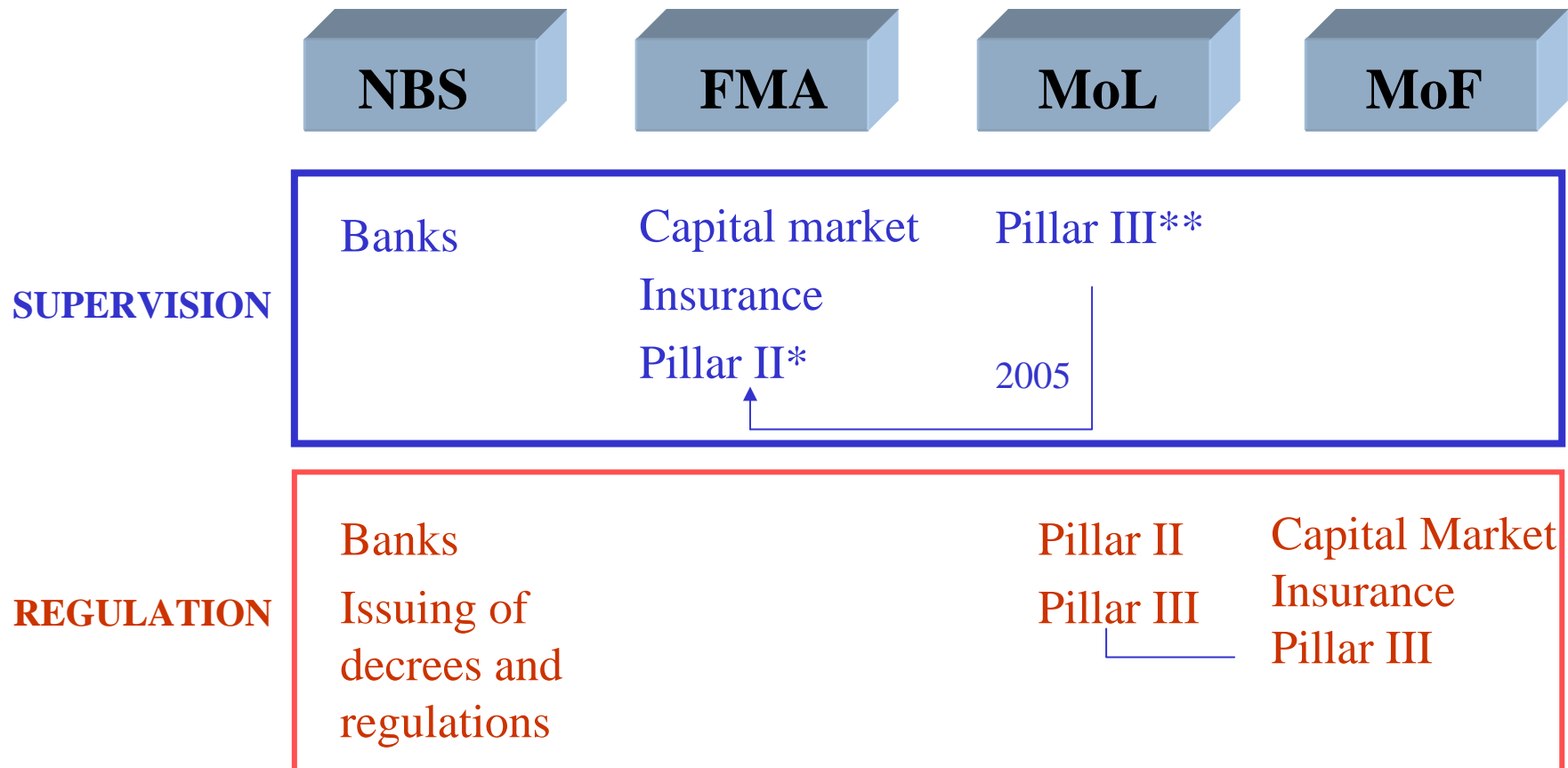
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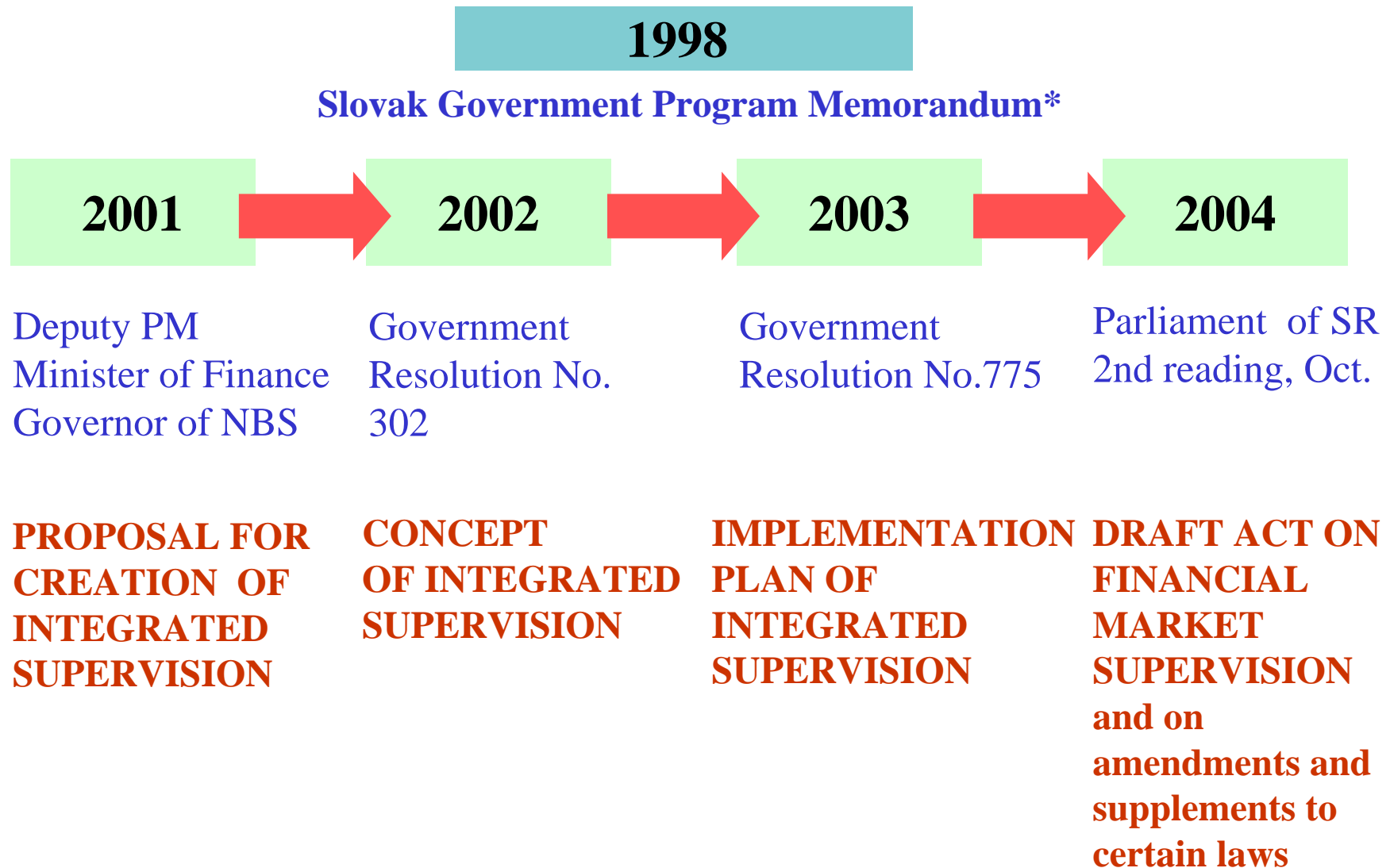
1. Current State of Regulation and Supervision



*Pillar II: compulsory pension savings - capitalisation pillar

**Pillar III: additional pension savings

2. Discussions on Changes: History



* To adopt decision on institutional location of banking supervision

3. Concept of Integrated Supervision (Govt. Resolution No. 302 of 2002)

AIM

- to strengthen and improve supervision and regulation of banks, capital market and insurance companies via institutional integration*

OPTIONS

- establishment of a single / separate supervisory body
- incorporation of FMA into the NBS
- close cooperation between supervisory bodies

TIMELINE

- end 2004 – legal framework
- end 2005 – completion of integration process

* new developments in FM, cross-sectoral interlinkages (ownership, products), capital/insurance markets supervision lagging, no authorisation for FMA to issue the secondary legislation, cost reduction

4.1 Independence: The Principle of Effective Supervision - Institutional and Functional Independence

	INSTITUTIONAL		FUNCTIONAL	
NBS	<ul style="list-style-type: none"> •INDEPENDENCE FROM STATE AUTHORITIES AND ANY OTHER BODIES •PROHIBITION FROM SEEKING AND TAKING INSTRUCTIONS /Constitution, NBS Act/	✓	<ul style="list-style-type: none"> •SUPERVISING SAFE FUNCTIONING OF BANKING SYSTEM •INDEPENDENCE AND IMPARTIALITY OF CONDUCT /authorization to issue secondary regulation/	✓
FMA	<ul style="list-style-type: none"> •INDEPENDENCE FROM STATE AUTHORITIES AND ANY OTHER BODIES •PROHIBITION TO INFLUENCE THE FMA /FMA Act/	✓	<ul style="list-style-type: none"> •CONTRIBUTING TO FM STABILITY •INDEPENDENCE AND IMPARTIALITY OF CONDUCT / <u>no</u> authorization to issue s.r./	X

The ECB Convergence Report, Oct. 2004: no objection concerning the independent status of the NBS

4.2 Independence: The Principle of Effective Supervision

- Personal and Financial Independence

		PERSONAL		FINANCIAL	
<div style="background-color: #8090a0; color: white; padding: 10px; text-align: center; font-weight: bold; font-size: 2em;"> N B S </div>	<ul style="list-style-type: none"> LEGAL PROCEDURES FOR APPOINTMENT AND DISMISSAL OF BANK BOARD MEMBERS; <i>(INVOLVEMENT OF GOVT., PARLIAMENT, PRESIDENT)</i> LENGTH OF TENURE 5 y. COURT DECISION IN DISPUTES OF DISMISSAL 	✓	<ul style="list-style-type: none"> OWN BUDGET APPROVED BY THE BANK BOARD <i>(INDEPENDENT FROM STATE AND SUPERVISED ENTITIES)</i> 	✓	
	<div style="background-color: #8090a0; color: white; padding: 10px; text-align: center; font-weight: bold; font-size: 2em;"> F M A </div> <ul style="list-style-type: none"> 5-BOARD MEMBERS APPOINT./DISMISSAL BY THE GOVERNMENT 5 y. tenure <i>(THE CHAIR AND 1 MEMBER BY MF; 1 MEMBER BY NBS); COURT DECISION IN DISPUTES</i> DIRECTOR GENERAL APPOINT./DISMISSAL BY THE GOVT. <i>(NOMINATED BY MF) 4 y. tenure</i> 	✓	<ul style="list-style-type: none"> COMBINED FINANCING FROM CONTRIBUTIONS OF SUPERVISED ENTITIES, FEES AND POSSIBLE FUNDS FROM THE STATE BUDGET 	X	

5. Implementation Plan for Integration (Govt. Resolution No. 775 of 2003)

5.1 Organization of Integrated FM Supervision

5.2 Financing

5.3 Legislative Prerequisites

5.4 Organizational and Technical Prerequisites

5.5 Schedule

5.5.1 Regulation and Supervision: Institutional Setting

5.5.2 Process of Supervisory Authorities Integration

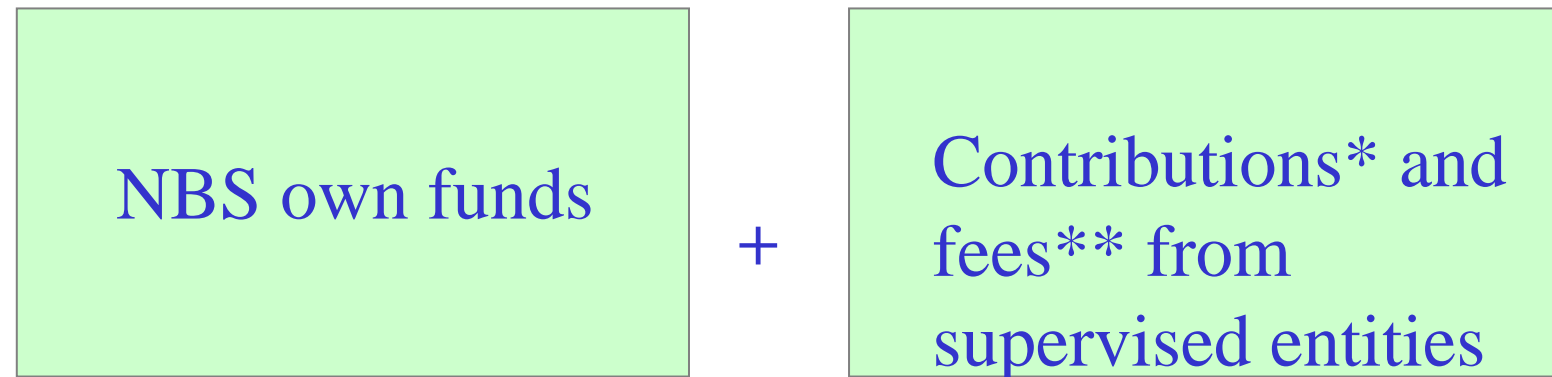
5.1 Organization of Integrated FM Supervision

NBS – a single authority

- Supervised entities
- Regulation (secondary legislation)
- Activities (licensing, on-site and off-site supervision, proceedings, drafting of relevant legislation)
- Decision-making process

5.2 Financing

A multiple-source model



*determined by the Bank Board on a year basis; ** stipulated in a decree issued by the NBS upon agreement of MoF

5.3 Legislative Prerequisites

- **Legislation addressing the institutional arrangements**
(the NBS Act)
- **Process Law**
(the Act on Supervision of FM)
- **Substantive Law**
(other acts: Banking Act, Stock Exchange Act, Securities Act, Insurance Act, Collective Investments Act, etc.)

5.4 Organizational and Technical Prerequisites

- Legal succession to the FMA
- Human resources
- IT
- Participation of the NBS in the international organizations

5.5 Schedule

- Formation of 4 expert groups: legislation, IT, property, human resources (2003)
- IT analysis and concept of harmonization (2003)
- Wording of draft laws and legislative process launch (2004)
- Submission of draft laws to the Parliament of SR (2004)



Integrated Supervision Effective Date: January 1, 2006

5.5.1 Regulation and Supervision: Institutional Setting

Supervision	before 2000				2000 - 2004				2004 - 2005				2006
	NBS	MoF	FMA	MoL	NBS	MoF	FMA	MoL	NBS	MoF	FMA	MoL	NBS
Banking	✓				✓				✓				✓
Insurance		✓					✓				✓		✓
Capital Market		✓					✓				✓		✓
III. Pillar DDP				✓				✓			✓		✓
Pillar II. DSS											✓		✓
Regulation (secondary)	✓	✓		✓	✓	✓		✓	✓	✓		✓	✓*

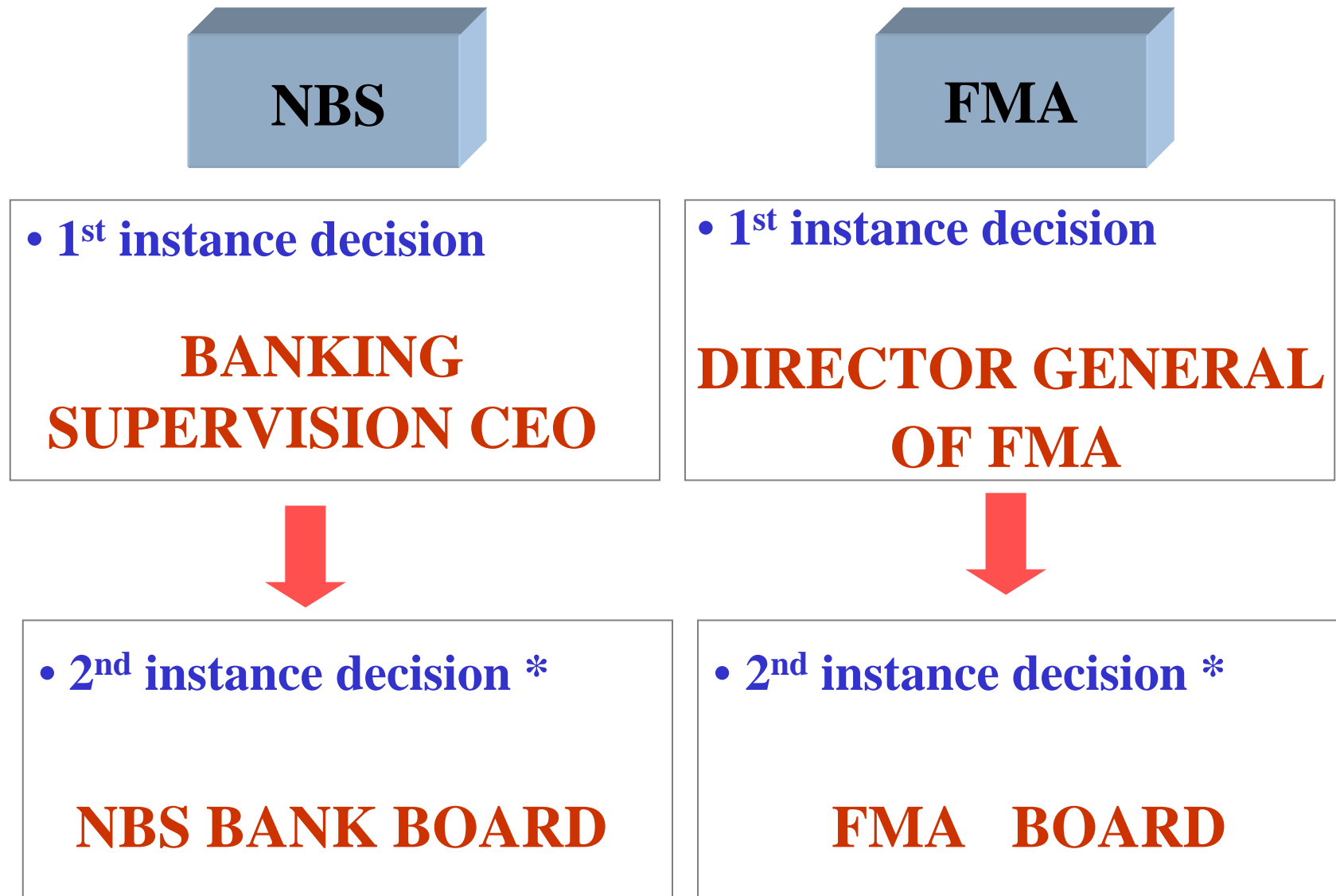
NBS - National Bank of Slovakia, MoF - Ministry of Finance, FMA - Financial Market Authority, MoL - Ministry of Labour, Social Affairs and Family, Pillar II – compulsory pension insurance, Pillar III – additional pension savings

* in cooperation with MoF and MoL

5.5.2 Process of Supervisory Authorities Integration

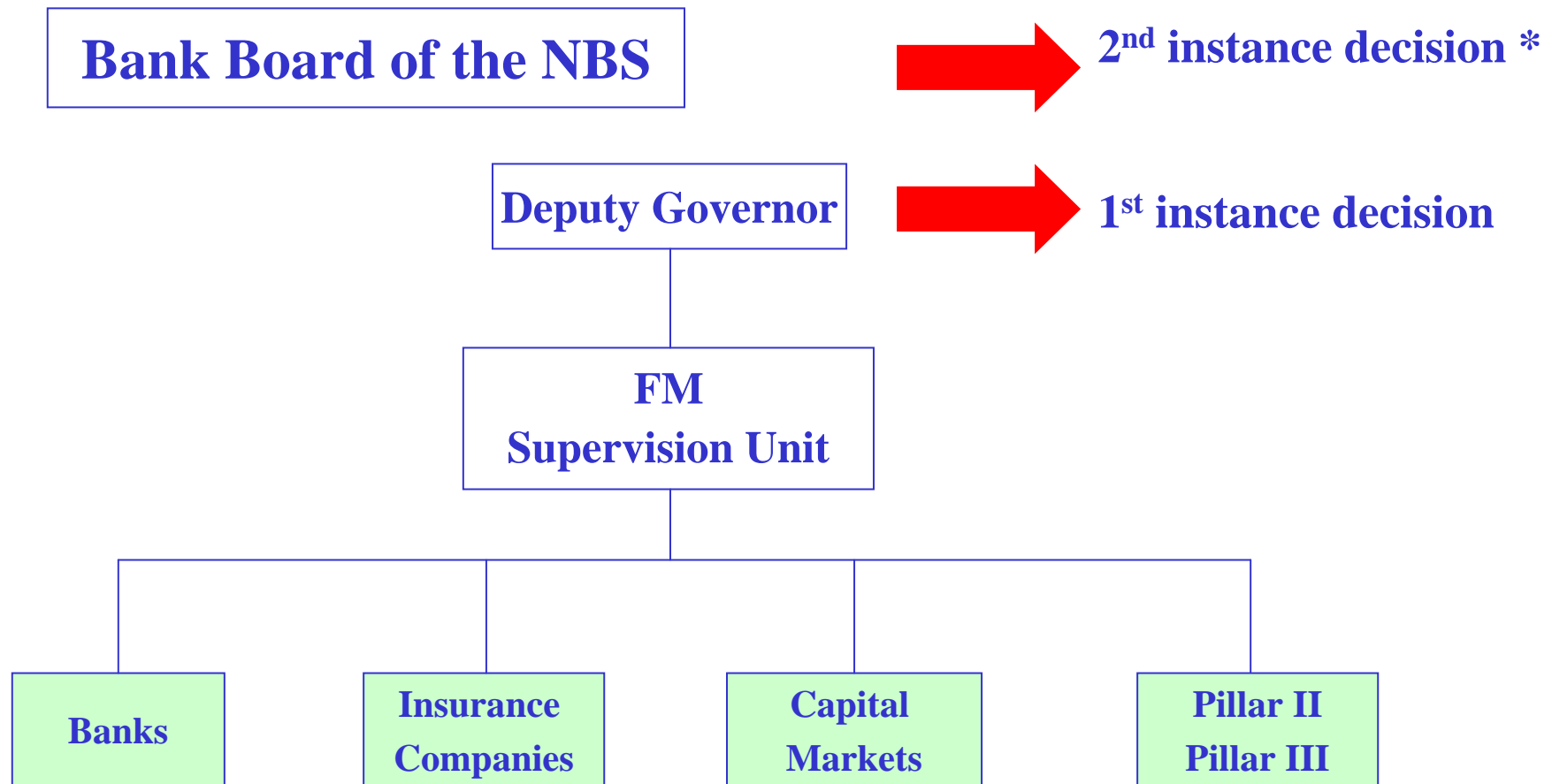
Independent supervisory authorities the NBS and the FMA - <i><u>not integrated</u></i>	2000 - 2002
<i><u>Non-institutional integration</u></i> 1. through the representation of the NBS in the FMA bodies: <ul style="list-style-type: none">• 1 member of the FMA Board is appointed by the government on proposal of the NBS Governor;• Deputy Chairman of the FMA Supervisory Committee is appointed by the government on proposal of the NBS Governor; • MoU between the NBS and the FMA	2002 - 2005
<i><u>Institutional integration</u></i> into the NBS	2006

6.1 Decision-making Process – Current State



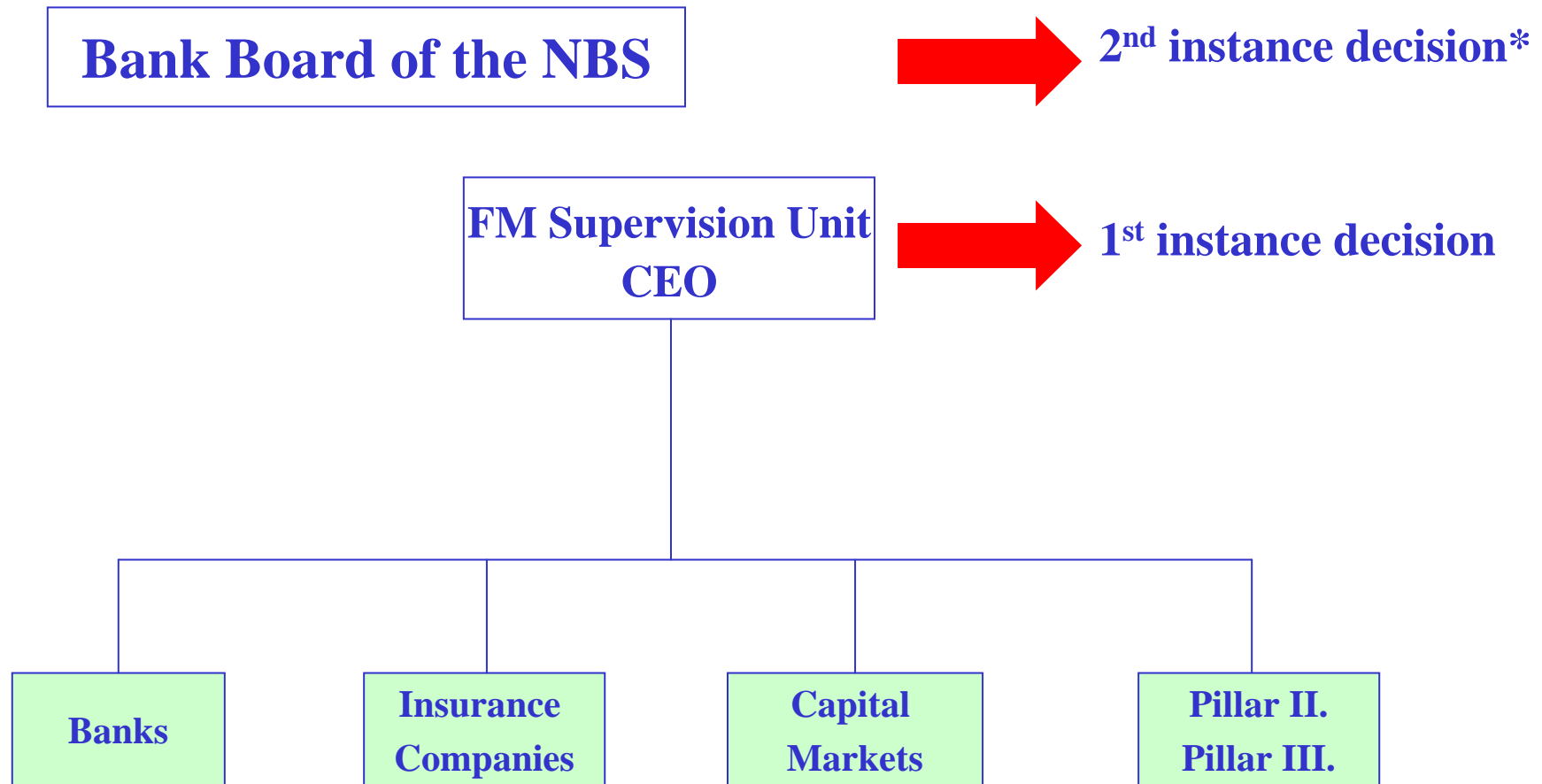
* The Board's decisions can be revised by courts

6.2.1 Decision-making Process - after Integration Alternative 1.



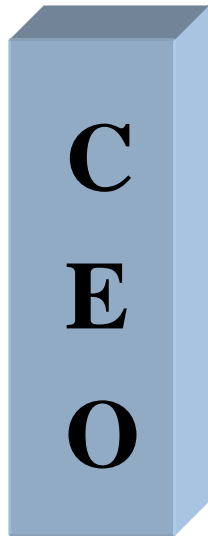
- * The Bank Board's decision can be revised by courts
- Sectorial organisation scheme follows the Lamfalussy process structures (CEBS, CESR, CEIOPS)

6.2.2 Decision-making Process - after Integration Alternative 2.



*The Bank Board's decision can be revised by courts

6.2.2.1 Decision-making Process - after Integration Alternative 2.



INDEPENDENCE

LEGAL PROCEDURES FOR APPOINTMENT AND DISMISSAL:

- **APPOINTMENT / DISMISSAL BY GOVERNOR
UPON PROPOSAL OF THE BANK BOARD**
- **5 YEAR TENURE (MAX. 2 TERMS)**
- **PROHIBITION OF CONFLICT OF INTEREST**

7.1 ECB Opinion on a Draft Law on Supervision of Financial Market, Sept. 22, 2004 (to the Alternative 1)

(based on Article 2(1) of Council Decision 98/415/EC)

Acknowledgements:

- ✓ NBS – a single authority directly and fully responsible for supervision of entire FM: a unique structure within the EU
- ✓ NBS's Independence, Credibility, Experience: decisive reasons for its appointment
- ✓ Recognition of the essential role of the NBS in safeguarding the stability and credibility of FM, as well as in protecting clients
- ✓ With a relatively small Slovak FM: good arguments for concentrating supervisory responsibilities in the hands of a single authority
- ✓ Potential to cope with increasing cross-sectoral interlinkages
- ✓ This function, other than those specified in the Statute of the ESCB, is compatible with its ESCB-related tasks

7.2 ECB Opinion on a Draft Law on Supervision of Financial Market, Sept. 22, 2004 (to the Alternative 1.) (based on Article 2(1) of Council Decision 98/415/EC)

Recommendations:

- Explicit recognition of the NBS task of contributing to the stability of financial system as a whole:
 - micro-prudential approach
+
macro-prudential dimension } more effective monitoring of systemic risk
- Clear distinction between 2 goals of financial stability and protection of investors
- NBS's internal governance structure to reflect the ultimate control of the Bank Board over the exercise of supervisory tasks
- Bank Board should have full power to intervene directly in the decision-making process of the supervision unit
- Possible impact of the reform on the NBS's financial situation