

Financial Market Supervision Report

2020



Czech National Bank — Financial Market Supervision Report — 2020

Governor's foreword

Dear Readers,

Supervision of the financial market in the Czech Republic is one of the key tasks conferred on the CNB by the Act on the CNB. Our main goals in this area are to maintain the stability of the financial system and ensure the safe and smooth development of the financial market. The CNB therefore regulates and systematically supervises the individual financial market sectors and entities, and lays down rules for their business, which in turn protects their stability and clients. It also issues penalties for non-compliance with those rules.



As in previous years, **the Financial Market Supervision Report** (hereinafter the Report) **provides transparent information about the CNB's supervisory work in the past year**. In the Report, you will find **information about the key regulatory and supervisory activities in 2020**. This information relates to the broad range of activities and tasks carried out by the CNB as the integrated supervisory authority and includes, in particular, off-site surveillance and on-site examinations in regulated financial market entities, supervising the procedures applied by those entities in practice, and supervising the capital market infrastructure and compliance with the duties set out in the Consumer Protection Act. The CNB's supervisory work also encompasses licensing, approval and authorisation activities, including the issuance 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 publication also contains basic information on changes in Czech and EU financial market legislation and on the CNB's activities in the area of international cooperation with financial market regulatory and supervisory authorities.

The CNB's major achievements **in the area of international cooperation** include the re-election of CNB representative Zuzana Silberová to the Management Board of the European Insurance and Occupational Pensions Authority and the appointment of Vojtěch Belling to the Management Board of the European Securities and Markets Authority. He is the first member of this authority from Central and Eastern Europe.

The major event of last year was the coronavirus crisis which had a huge impact on the global and Czech economy, and also affected the functioning of

financial markets. **The domestic financial sector as a whole entered 2020 in very good shape** as stable, well-capitalised and highly liquid. This has enabled it to easily withstand the effects of the coronavirus pandemic and continue to perform its role of financing the domestic economy. The CNB immediately responded to the unprecedented developments by adopting a set of stabilisation measures in the areas of monetary policy, macroprudential policy and liquidity-providing monetary operations. The impacts of the pandemic also significantly affected CNB supervision. In response to the related risks, **the CNB changed its supervisory priorities for 2020, adapting them to the extraordinary situation.**

The CNB was involved in the preparation of a **loan moratorium law**, which was adopted in April 2020 as one of the measures to mitigate the impacts of the pandemic. This law enabled borrowers to ask their loan provider to postpone instalments until 31 October 2020 if they had lost income temporarily due to the coronavirus pandemic or the related anti-epidemic measures. The use of the moratorium also made it unnecessary for banks and credit unions to increase their provisions for the receivables which resulted from this postponement. The end of the time-limited moratorium did not lead to an immediate significant rise in share of non-performing loans.

The CNB also **relaxed the countercyclical capital buffer**, lowering its rate gradually from 1.75% to 0.5% in 2020. This allowed it to support banks' ability to provide credit to non-financial corporations and households without interruption. It also called on banks, insurance companies and pension management companies to refrain from making **dividend payouts** or taking any other steps that might jeopardise their capital resilience. In addition, the CNB relaxed its **recommendation for the assessment of new mortgages** as of 1 April 2020.

As for actual supervision, the CNB **strengthened the monitoring of financial market entities** in specific risk areas affected by the coronavirus pandemic. Supervision thus focused on the ability of supervised entities to deal with the impacts of the pandemic, with capitalisation, risk management, an appropriate configuration of the governance system, business model viability and the ability to ensure conditions for continuity of activities monitored particularly closely. In addition to the above, the CNB also focused on **the assessment of credit portfolio quality and provisioning** in the case of credit institutions. As part of its supervisory work during the pandemic, the CNB performed more frequent supervisory analyses and intensified its communication with supervised entities, European supervisory authorities and the different associations of financial market entities.

Despite the increased attention paid by the CNB to the effects of the pandemic, it continued to focus the same, or even greater, supervision efforts on other, yet to be mentioned, areas. In 2020, the CNB paid considerable attention – not only in the context of the pandemic – to compliance with consumer protection and conduct of business rules, the resilience of supervised entities to cyber risks

and the evaluation of the efficiency and effectiveness of measures against money laundering and terrorist financing (AML/CFT).

It is already clear that **the course of the pandemic will continue to have a significant effect on supervision in the period ahead**. I am nonetheless convinced that the domestic financial sector, which showed overall strong resilience last year, entered the new calendar year in relatively very good shape, although the risks associated with the pandemic remain high given its extremely uncertain course. I can therefore assure you that the CNB will continue to conduct supervision based on a risk-oriented approach with maximum responsibility to maintain financial stability and safeguard the sound operation of the domestic financial system. The CNB stands ready to react further to various scenarios of future developments and adopt appropriate supervisory measures without delay if the situation so requires.

On behalf of the Czech National Bank



Jiří Rusnok, Governor

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CORE SUPERVISORY ACTIVITIES IN 2020

The CNB performed the role of integrated financial market supervisory authority in 2020 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 continued to carry 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.

In 2020, financial market conditions were significantly affected by the COVID-19 pandemic, which was also strongly reflected in the CNB's supervisory priorities for that year.¹ **The CNB's core activities in the area of financial market supervision in 2020** were as follows:

- In the **credit institutions** sector, supervision was focused on assessing the ability of credit institutions to cope with the impacts of the pandemic-related crisis, especially in the areas of capital adequacy, risk management, credit portfolio quality, provisioning and the continuity of activities under exceptional conditions. The CNB assessed the evolution of relief provided by banks to clients, including the legislative loan moratorium, and the adequacy of its coverage in the supervised entities' balance sheets. Given the increase in remote working and the ongoing digitalisation of financial services, increased supervisory attention was paid to the resilience of financial institutions to cyber risks.
- As regards **credit institutions' 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. The CNB also focused on the preparation of strong customer authentication solutions for online card transactions and their implementation (for details see Box 3 of the Report). In addition, the CNB focused on compliance with the duties arising from EU legislation which set equal charges for cross-border payments in euro within the EU and charges for the corresponding domestic payments in Czech koruna, and the obligation to display transaction and currency conversion fees prior to cash withdrawals from an ATM or for standard electronic transactions.
- When conducting supervision in **the insurance sector**, the CNB focused on evaluating the risk profiles of supervised insurance companies and changes thereto, their financial condition and solvency situation and assessing compliance with governance system requirements, and overseeing compliance with the requirements for regulatory reporting and information disclosure. As a result of the pandemic, the CNB paid increased attention in 2020 to monitoring and assessing its impacts on the insurance sector, especially as regards the capital and solvency needs of individual insurance companies and their potential vulnerability in light of their business models and capitalisation.
- With regard to **conduct of business and consumer protection in the insurance sector**, the CNB focused more closely on checking whether insurance companies maintained business continuity in relation to the impacts of the pandemic, including ensuring continuity in the settlement of policy claims, and assessing the impacts of the rapid implementation of new technologies in individual insurance companies. In connection with the monitoring of cross-border provision of insurance, the CNB concentrated on the impacts of Brexit on insurance portfolios and the affected policyholders. Based on court ruling monitoring, the CNB also monitored the proper protection of persons insured under "fleet" insurance and risk management by insurance companies. It also emphasised compliance with regulatory requirements for product governance (the creation and distribution of insurance products) in relation to individual insurance products to prevent harming end-consumers.
- In the **pension management companies (PMCs) and retirement funds** sector, the CNB monitored compliance with regulatory requirements, especially fulfilment of the capital adequacy requirements by PMCs, and evaluated their capital positions and capital management. The CNB used increased

¹ The Financial Market Supervision Report for 2020 captures the situation and information known as of 31 December 2020.

capacity to monitor and assess the effects of the coronavirus pandemic on PMCs' capital condition, results and overall activities. It also focused on compliance with the rules for asset management of funds managed by PMCs.

- As regards **investment firms**, the CNB paid particular attention to the preparations for new prudential regulation of this capital market sector (IFD/IFR) as part of its off-site surveillance. It also focused on checking compliance with the requirements arising from the implementation of the MiFID II into domestic law, and on the provision of services by foreign investment firms and the cross-border provision of investment services.
- 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 completed a review and settings the content of regulatory statements to take account of the current legislation.
- Supervision of **entities carrying on bureau de change activity** focused on updating and comprehensively evaluating the risk profiles of bureaux de change and checking compliance with duties relating to measures against money laundering and terrorist financing (AML/CFT).
- The CNB's supervisory activities in the **non-bank payment service providers** sector mainly involved verification of compliance with duties regarding protection of funds by the supervised entities and monitoring the phase-in of strong customer authentication of payment institutions' and electronic money institutions' clients for electronic card transactions. The CNB also checked compliance with territorial restrictions on the activities of small-scale payment institutions and small-scale electronic money issuers in the Czech Republic and the links of these entities to the domestic market and clients.
- As regards **consumer credit providers**, supervisory work focused mainly on providers' approach to applications for the deferral of instalments due to the coronavirus pandemic during and after the statutory loan moratorium.
- In the **retail distributors sector**, the CNB issued a decree which introduced regular reporting by these entities. The CNB also conducted thematic surveys targeted at product governance in the area of investment and insurance product distribution, the assessment of appropriateness and suitability in the provision of investment services and pandemic-related measures adopted by distributors.
- In the area of **regulated markets and securities issues**, the CNB dealt with an increased number of applications for the approval of securities prospectuses and supplements thereto. The CNB conducted standard supervision of compliance with issuers' information duties, mainly by reviewing the content of annual and mid-year reports and, in selected cases, conducting checks as regards the correct application of international financial reporting standards (IFRS)
- As regards **authorisation activities**, the number of applications for authorisations under Act No. 370/2018 Coll., on Payment Systems, remained elevated in 2020. The increased number of applications was a market reaction to legislation that took effect in August 2018.
- As part of the supervision of the activities of **accredited entities** in organising professional examinations, the CNB issued a supervisory benchmark containing a summary of the minimum standards to ensure the proper conduct of professional examinations in a remote manner.
- Last but not least, the CNB paid considerable attention to evaluating the effectiveness of **AML/CFT measures** and to identifying the risks related to this area, which is now also a part of the Supervisory Review and Evaluation Process (SREP). In response to the current risks, the CNB focused on the identification of risks and measures applied in the AML/CFT area due to the pandemic-related situation in the credit institutions' sector, and for life insurance companies and PMCs.

Part A — Financial market supervision

I. BRIEF OVERVIEW OF THE FINANCIAL MARKET IN 2020

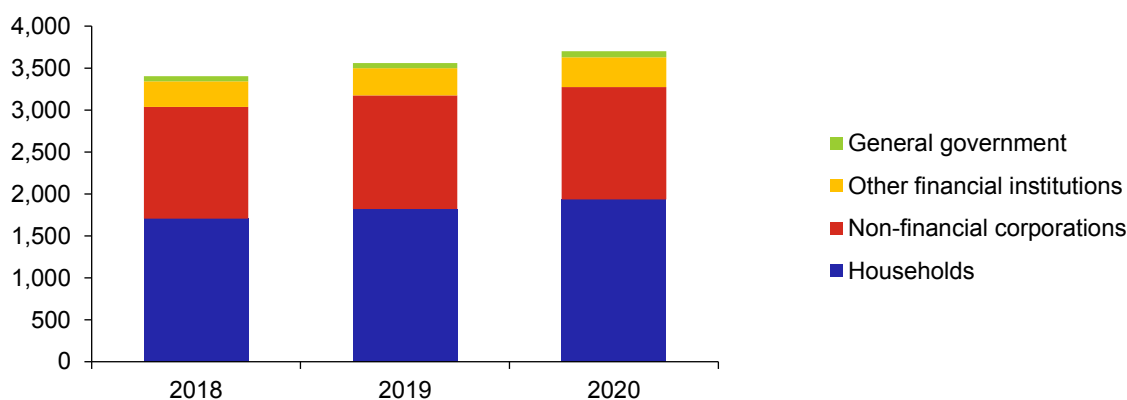
Growth in client loans slowed due to the pandemic

The banking sector's total assets rose by 5.4% year on year to CZK 7,967.8 billion at the end of 2020. Loans and receivables (net of provisions), which are the most important items of the sector's assets, recorded only a relatively slight year-on-year increase of CZK 32.6 billion to CZK 6,067.1 billion.

Loans to and receivables from central banks decreased by CZK 100.5 billion year on year to CZK 2,189.6 billion, while client loans² increased by 3.9% to CZK 3,701.0 billion. This year-on-year increase was due mainly to growth in loans to households (6.4%) which amounted to CZK 1,935.6 billion at the end of the year, mainly reflecting the record-high volume of bank loans for house purchase and mortgage loans. Loans to and receivables from general government also grew at a relatively significant pace, by 17.4% to CZK 73.6 billion. By contrast, the impacts of the pandemic negatively affected receivables from non-financial corporations, which dropped in year-on-year terms by 1.1% to CZK 1,338.3 billion.

Chart A.1 Selected client loan aggregates

(in CZK billions; as of end of year)



Anti-epidemic measures mitigated the increase in the share of non-performing loans

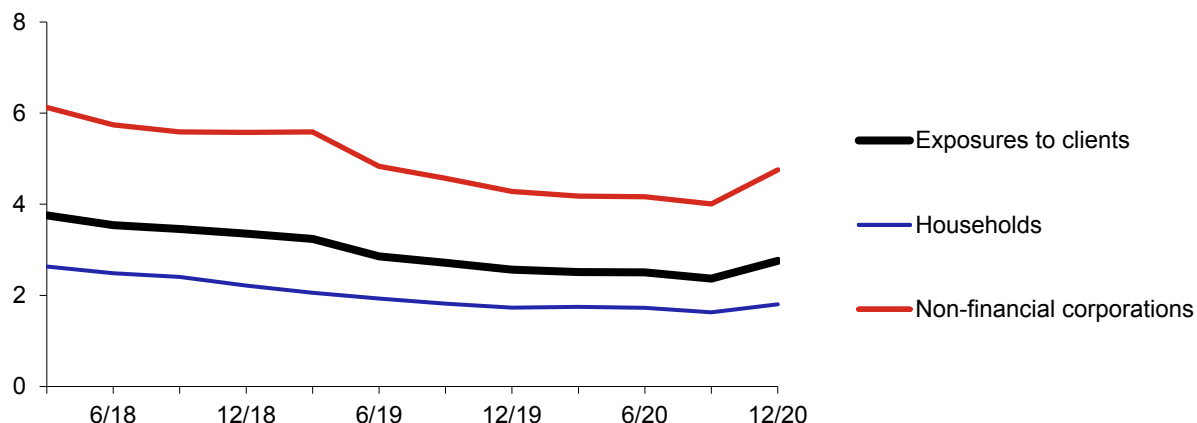
The volume of non-performing client loans (at gross value, i.e. excluding allowances) increased by 12.6%, or CZK 11.9 billion, year on year to CZK 104.8 billion. The increase was due mainly to non-performing exposures in the non-financial corporations sector (an increase of CZK 6.6 billion) and in the household sector (an increase of CZK 3.6 billion). At the end of the year, the ratio of non-performing loans to total client loans was still relatively low at 2.8% (growth of 0.2 percentage point).

The growth in non-performing loans in 2020 was largely dampened by the government's stabilisation measures and the statutory loan moratorium which enabled borrowers to postpone their loan instalments by several months. At the end of the year, non-performing loans increased somewhat following the end of the moratorium in October, which was mainly reflected in an increase in non-performing loans to non-financial corporations.

² Client loans represent the aggregate of loans to and receivables from general government, households, non-financial corporations and other financial institutions.

Chart A.2 Non-performing loans

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

**Growth in client deposits was driven by the household sector**

In 2020, the banking sector's total liabilities increased by CZK 356.7 billion to CZK 7,297.7 billion. Client deposits, which were the most important liability item,³ totalled CZK 5,309.5 billion. Client deposits recorded a year-on-year increase of 9%, due mainly to household deposits which rose by 12.4% year on year to CZK 3,288.8 billion at the end of the year. Equity grew by 7.7% on a year earlier, reaching CZK 670.1 billion at the end of 2020.

The effects of the pandemic were reflected in a significant drop in banks' profits and rate of return

The after-tax profit of the banking sector as a whole amounted to CZK 47.2 billion in 2020, a year-on-year drop of CZK 43.9 billion, i.e. of about fifty per cent. The drop in profit was due mainly to a decrease in interest income which fell by 12.9% to CZK 126.9 billion compared to the previous year, and impairment losses which rose by CZK 25.2 billion in year-on-year terms. The year-on-year change in profit was slightly up on last year due to a decrease in administrative expenses of 5.3% to CZK 73.6 billion. The drop in profit, combined with the increase in the balance sheet total, had a substantial effect on return. Return on equity (RoE) amounted to 8.2%, a year-on-year decrease of 9.9 percentage points. Return on assets (RoA) fell by 0.6 percentage point to 0.56% in the same period.

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

The liquidity situation of the banking sector remained strong and stable. The aggregate liquidity coverage ratio (LCR) for the banking sector as a whole, which to some extent makes it possible to express banks' resilience to a short-term liquidity shock, rose by 12.7 percentage points year on year to 197.6% at the end of 2020. The share of client deposits in total client loans reached 143.5% at the end of 2020, a year-on-year increase of 6.7 percentage points. The share of quick assets in the sector's total assets also grew, amounting to 41.0% at the end of the year.

Banks strengthened their capital adequacy

The regulatory capital of the domestic banking sector⁴ rose by CZK 16.8 billion year on year to CZK 630.9 billion. Regulatory capital was made up almost entirely of high-quality Tier 1 capital (97%). The total capital ratio⁵ of the domestic banking sector increased by 3.1 percentage points year on year to 24.4%. The capital ratio was affected mainly by an increase in capital from profit, reflecting, among other things, the CNB's recommendation on restricting dividend payouts. The leverage ratio expressed as the ratio of Tier 1

³ Client deposits are deposits accepted from general government, households, non-financial corporations and other financial institutions.

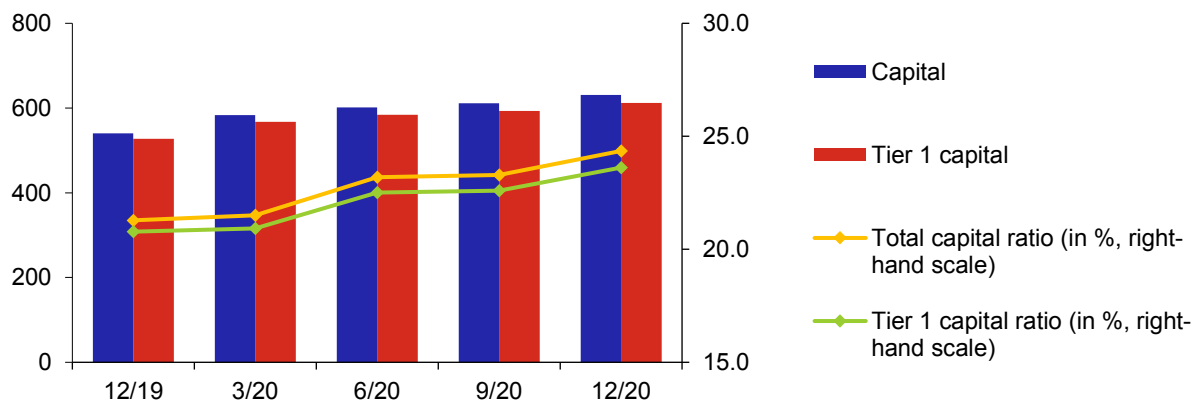
⁴ In this case, foreign bank branches operating in the Czech Republic are excluded from the Czech banking sector, as the risks to their business activities are covered by the regulatory capital of their head offices. The assessment of capital adequacy falls to the competent foreign supervisory authority.

⁵ The capital ratio is defined as the ratio of the relevant capital to total risk exposures in per cent.

capital to total loans and receivables was 7.8% as of the end of 2020, representing a year-on-year increase of 0.7 percentage point.

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

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

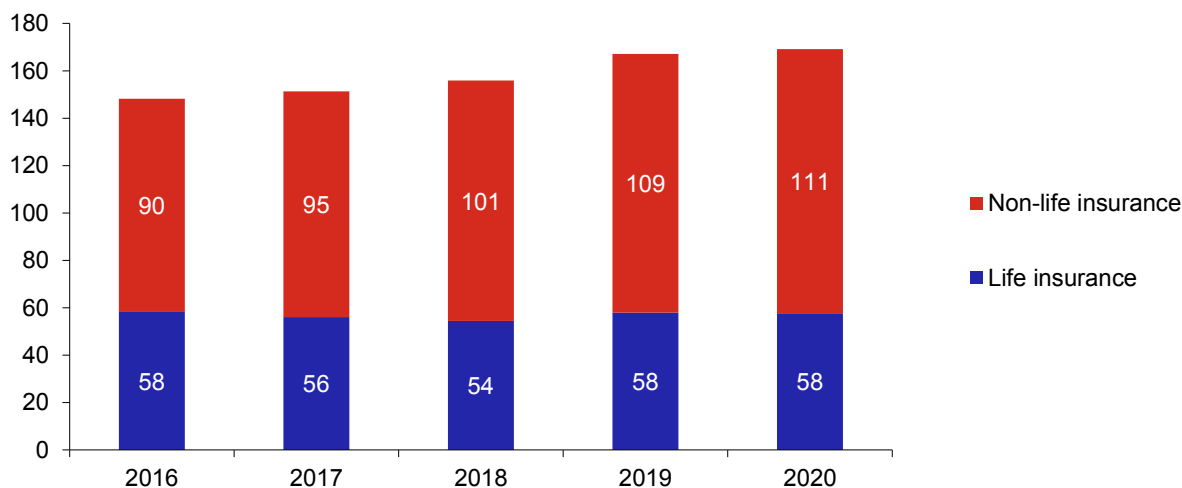


The insurance sector saw a slowdown in the growth of gross premiums written

Gross premiums written totalled CZK 169.2 billion at the end of 2020, up by 1.2% year on year. Premiums written in non-life insurance increased by 2.1% to CZK 111.5 billion, while those in life insurance recorded a slight year-on-year decrease of 0.5% to CZK 57.7 billion. The share of non-life insurance premiums in total premiums grew to 65.9%.

Chart A.4 Gross premiums written

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



The share of debt securities in the investment structure of domestic insurance companies increased

Total investments of domestic insurance companies remained broadly stable compared to 2019 at CZK 287.0 billion (a year-on-year rise of 0.4%). Investments in debt securities grew by 3.4% year on year and their share in total investments thus rose to 74.3%. By contrast, participating interests in domestic insurance companies' portfolios fell by CZK 5.6 billion to CZK 25.9 billion.

The profitability of domestic insurance companies was affected by the pandemic

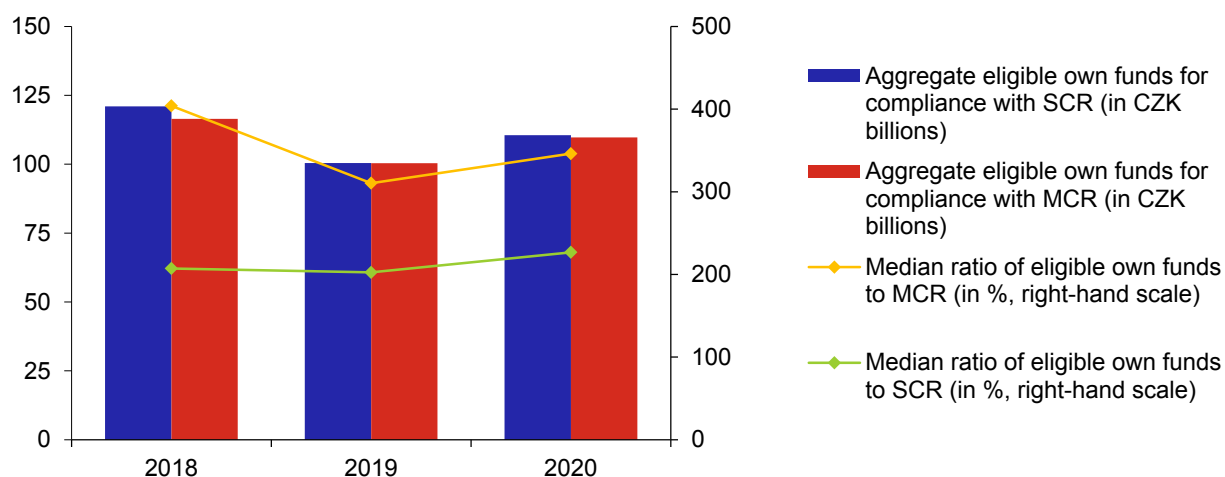
The net profit of the domestic insurance sector (including branches of foreign insurance companies) was CZK 14.7 billion in 2020, down by more than one-fifth on a year earlier. This considerable year-on-year drop was due mainly to a high net profit in 2019, which was affected by one-off income on the non-technical account⁶ related to mergers and acquisitions on the insurance market. The technical account for life insurance recorded a year-on-year drop of 17.6%, amounting to a profit of CZK 8.3 billion at the end of 2020. By contrast, the profit on the technical account for non-life insurance increased significantly, by 29.6%, to CZK 9.0 billion.

The domestic insurance sector strengthened its capital position in 2020

Domestic insurance companies strengthened their capital positions in 2020 and were sufficiently capitalised in terms of the Solvency II capital requirements⁷ at the end of 2020, with no supervised domestic insurance company reporting a ratio of eligible own funds to the solvency capital requirement (SCR) of less than 100%. The median ratio of eligible own funds to the SCR was 227%, up by 24 percentage points compared to 2019.

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

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



Pension funds' assets increased despite a stable number of planholders in the third pillar

Pension management company funds were managing assets totalling CZK 542.1 billion at the end of 2020, up by 6.8% on a year earlier. The year-on-year increase in the value of assets in 2020 was again due to net funds received, which amounted to CZK 38 billion in 2020. The number of planholders in the third pension pillar of the pension system was flat in 2020. At the end of 2020, a total of 4.41 million planholders were registered (down by 25,000). The number of pension scheme planholders decreased by 170,000 year on year to 3.13 million, while the number of planholders with supplementary pension savings schemes increased by 145,000 (to 1.28 million). Pension management companies generated a net after-tax profit of CZK 1.9 billion in 2020, down by CZK 33 million on a year earlier. The ratio of total capital to the specified capital requirements was 216.0%, up by 48.2 percentage points compared to 2019.

⁶ 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.

⁷ 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 bonds in pension funds portfolios increased at the expense of bank deposits

Assets allocated in transformed funds accounted for 85.4% of funds, down by 2.6 percentage points on a year earlier. The assets of transformed funds consisted mainly of government bonds (76.9%), followed a long way behind by receivables from banks (12.1%) and other bonds (9.4%). The resources of participation funds were also invested mainly in government bonds (42.5%) and in receivables from banks (25.7%), equity securities (21.2%) and other bonds (9.7%). The share of bank deposits in pension funds' portfolios fell by 9 percentage points year on year to 14%, which is mostly attributable to the effect of the fall in interest rates. By contrast, the share of debt securities increased by 8 percentage points year on year to 81%.

Assets managed by investment funds increased

The assets invested in domestic collective investment funds managed by Czech management companies totalled CZK 418.8 billion at the end of 2020, up by 7.1% year on year. Growth in assets was driven mainly by net sales of units totalling CZK 15.3 billion. The after-tax aggregate net profit of investment companies amounted to CZK 1.2 billion, a year-on-year rise of 0.8%. The largest share of the assets of collective investment funds was invested in equity securities (42.8%), deposits and other receivables (18.7%), government bonds (15.5%) and other bonds (14.3%). The share of deposits in funds' portfolios significantly declined year on year (by 5 percentage points), offset by steady increases in the shares of other asset categories.

Total exchange trading in securities on the PSE increased

Total exchange trading in securities on the Prague Stock Exchange (PSE) amounted to CZK 125.3 billion in 2020, a year-on-year increase of 15.2% compared to the previous year when trading was at its lowest level in many years. Transactions on the Prime Market accounted for 90.7% of the total trading volume. The rest of the volume was traded on the Standard (8.6%), Free (0.5%) and START markets.

Stock prices had not fully recovered by the end of the year following a sharp fall in March (the PX index fell by a total of 31.5% between 4 and 18 March). Therefore, the PX index closed 2020 at 1,027.1 points, down by 7.9% compared to the last trading day of 2019. The deepest decline of the PX index was on 12 March, with an intraday drop of 7.8%, its sharpest one-day fall since 24 October 2008 when it lost 11.8% of its value. The price drop significantly affected the market capitalisation of the Prime Market, which declined by 12.9% to CZK 934.5 billion despite the number of issues staying unchanged. The ratio of Prime Market capitalisation to GDP thus amounted to 16.5% at the end of the year.

II. REGULATORY FRAMEWORK

II.1 SELECTED REGULATORY CHANGES IN THE EU IN 2020

In 2020, 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 (hereinafter the 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 the ESAs' draft replies to the Commission's public consultations, technical standards, guidelines, opinions and other methodological and interpretative documents.

Major legislative changes in the EU in 2020

Change to prudential regulation of the banking sector in response to the coronavirus pandemic

Regulation (EU) 2020/873 amending Regulations (EU) No 575/2013 and (EU) 2019/876 as regards certain adjustments in response to the COVID-19 pandemic, referred to as the CRR "quick fix", was adopted in June 2020. The regulation aims to make some rules of the prudential regulatory framework more flexible to complement the other measures that respond to the coronavirus pandemic. It is expected to mitigate the pressure on institutions' regulatory capital, thus maintaining their ability to provide loans to clients even in the event of an economic shock.

Crowdfunding Regulation

The aim of Regulation (EU) 2020/1503, which entered into force in November 2020, is to harmonise legislation and simplify the cross-border provision of crowdfunding services. The regulation introduces a new, licensed category of crowdfunding service providers and lays down the conditions under which crowdfunding services may be provided.

Taxonomy Regulation

Regulation (EU) 2020/852 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088, which provides a framework for an EU-wide classification system for environmentally sustainable economic activities (taxonomy), entered into force in July 2020. To this end, the regulation defines six environmental objectives and establishes the general criteria for determining whether an economic activity qualifies as environmentally sustainable. The principles laid down in the regulation will be complemented with delegated acts containing specific technical screening criteria to determine which economic activities can be considered environmentally sustainable according to the taxonomy. The regulation also introduces additional duties in the area of disclosure of information related to sustainability for companies obliged to publish non-financial information pursuant to Directive 2013/34/EU on annual financial statements, consolidated financial statements and related reports of certain types of undertakings, and for financial market participants offering financial products.

Selected regulations and directives under preparation in 2020

Review of European regulatory framework Solvency II

Throughout 2020, the CNB was actively involved in the ongoing process of the first complex review of 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 (Solvency II) and the related legislation. It took part in the preparation of EIOPA's opinion for the Commission, which was published on 17 December 2020, and contributed

suggestions to the Commission's public consultation on selected issues related to this review.⁸ The CNB advocated that the proposed changes should be balanced without causing an unjustified relaxation of the prudential rules or unnecessary growth in administrative burden for insurance and reinsurance companies. It also sought to maintain the protection of policyholders and beneficiaries as the primary aim of the framework and to ensure that national authorities continue to hold sufficient powers to exercise supervision of insurance and reinsurance companies, including their cross-border activities, effectively. The Commission is expected to publish the draft legislative changes to the Solvency II framework in the second half of 2021.

Reviews of the Prospectus Regulation and the Markets in Financial Instruments Directive (MiFID II) in response to the coronavirus crisis

The two regulations are part of a set of legislative proposals adopted by the Commission in response to the COVID-19 pandemic known as the "capital markets recovery package". They jointly aim to reduce the economic impacts of the current crisis and support a swift recovery of capital market participants. The purpose of the targeted amendments to the Prospectus Regulation is to simplify the prospectus regime for issuers, specifically, to introduce a shorter prospectus (the EU Recovery Prospectus) and relax the regime for the notification of supplements and non-equity issuances by credit institutions. The option to use the simplified regime ends on 31 December 2022 (and the approved prospectuses will then be valid until 31 December 2023 at the latest). The amendment to MiFID II aims to facilitate investment in the real economy and enable the rapid recapitalisation of European companies. This will be achieved through changes to the rules governing investment services and amendments to the commodity derivatives regime. The amendment is proposed to take effect on 28 February 2022. The deadline for its transposition in the EU Member States is 28 November 2021.

Draft directive on credit servicers, credit purchasers and the recovery of collateral

The draft aims to enhance the protection of secured creditors using a more effective method to recover their money out of court from secured loans to business borrowers. In addition, the draft seeks to remove obstacles to credit servicing by third parties and loan sales to further develop secondary markets for non-performing loans. The draft is part of the Commission's action plan to tackle non-performing loans, which was published in 2018. Discussions on the draft directive were resumed at the end of 2020.

Directive on the resilience of critical entities (CER)

The directive aims to strengthen the resilience of entities essential for the maintenance of vital societal functions or economic activities in the internal EU market (critical infrastructures). The draft was presented to the Member States in December 2020. The directive is closely linked to the directive on cybersecurity (the NIS Directive) and will replace the existing Council Directive 2008/114/EC (the ECI Directive). However, due to the growing interconnectedness of infrastructures between the various segments, the scope of the CER has been extended to cover the banking sector and the financial market infrastructure. Its impact on entities from these segments is somewhat limited however, as the sector-specific Digital Operational Resilience Act (the DORA Regulation), which is currently under preparation, will be applied to them as a matter of priority.

II.2 SELECTED REGULATORY CHANGES IN THE CZECH REPUBLIC IN 2020

In 2020, 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 Ministry of Finance and other state administration bodies on the preparation of new laws. It 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 approved or under preparation in 2020.

⁸ The Commission's consultation concerned a wide range of topics such as the objectives of the revised Solvency II framework, the activities of insurance companies in terms of sustainability and the long-term horizon, Solvency II proportionality, disclosure of information by insurance companies, an improvement in the EU single insurance market, guarantee schemes, and the framework's relationship to risks associated with climate change and to cyber risks.

Major legislative changes in the Czech Republic in 2020

Amendment to the Act on Banks and other laws relating to the banking identity project

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, was adopted in 2020. Act No. 49/2020 Coll., which the CNB helped to prepare, amended Act No. 21/1992 Coll., on Banks, and Act No. 253/2008 Coll., on Certain Measures Against Money Laundering and Terrorist Financing. More information on banking identity is available in Box 1.

Act on Some Measures in the Area of Loan Repayment in Connection with the COVID-19 Pandemic

Over the course of the year, the CNB was very actively involved in work related to the adoption of Act No. 177/2020 Coll., on Some Measures in the Area of Loan Repayment in Connection with the COVID-19 Pandemic (the Moratorium Act). In 2020, this extraordinary legislation allowed consumers and businesses to postpone their loan instalments for up to six months (more information on this law is available in Box 2).

Amendment to the Act on Banks and the Act on Credit Unions

In 2020, Act No. 338/2020 Coll. was approved, amending Act No. 21/1992 Coll., on Banks, and Act No. 87/1995 Coll., on Credit Unions. An important material change is strengthened protection of bank clients 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. The law further reduces the administrative burden on market participants by cancelling the duty requiring banks to submit a list of their shareholders to the CNB before each general meeting and simplifying 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 this 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 amendment 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 Certain Measures against Money Laundering and Terrorist Financing and related laws

Act No. 527/2020 was adopted as 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. The preparation of the Act on the Register of Beneficial Owners was also finalised. The aim of the proposals is to transpose an amendment of the Anti-Money Laundering Directive and incorporate the recommendations of the MONEYVAL Committee. The amendment introduces, for example, 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.

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

In 2020, an amendment to some acts in the area of insurance and financing of state-subsidised exports was prepared in connection with the coronavirus pandemic. This allows the Export Guarantee and Insurance Corporation (EGAP) to provide banks with guarantees in areas other than insurance of export loans. The CNB also commented on a draft government decree implementing certain provisions of Act No. 58/1995 Coll., on Insurance and Financing of State-Subsidised Exports, which stipulates the purpose and scope of guarantees, the conditions for their provision, the amount of insurance capacity and the method of creating a fund to cover claims arising from guarantees provided, and on an increase in the EGAP's capital in 2020 due

to the negative impacts of the coronavirus pandemic. This act was promulgated in the Collection of Laws as Act No. 214/2020 Coll. and took effect on 29 April 2020.

Another amendment to the Act on Insurance and Financing of State-Subsidised Exports, which amends the Act on Budgetary Rules, was submitted to the Chamber of Deputies in February 2020 (Parliamentary Print No. 757). This proposal, which is still being discussed by the Chamber of Deputies, aims, among other things, to allow the EGAP to take over a share in the Czech Export Bank (ČEB).

Amendment to the Capital Market Undertakings Act and other regulations

Act No. 119/2020 Coll. amended nine laws in the capital market area. Besides the Capital Market Undertakings Act, they included the Act on Bonds, the Act on Administrative Fees, the Insolvency Act, the Supplementary Pension Savings Act and the Act on Management Companies and Investment Funds. With the amendment to the Capital Market Undertakings Act, Czech law was adapted to the new Prospectus Regulation and further changes were introduced, for example in the distribution area. The amendment to the Act on Management Companies and Investment Funds removed a number of minor shortcomings, for example as regards promoters, meetings of unit-holders, investment shares, depositaries of below-limit funds for qualified investors, and outsourcing. The amendment to the Act on Bonds enhanced issuers' transparency owing to concerns about corporate bonds.

Amendment to the Act on Insurance and Reinsurance Distribution

In 2020, the CNB was actively involved in the preparation of Act No. 524/2020 Coll., which amends Act No. 170/2018 Coll., on Insurance and Reinsurance Distribution. This amendment responded to the risk that a large proportion of the professional examinations required of insurance intermediaries by law would not be carried out because of government pandemic measures. A change to a transitional provision postponed the deadline for passing the examinations by six months and also addressed the extension of the existing authorisations of the entities concerned, which had been due to expire at the end of 2020. In the meantime, the CNB also published information on its supervisory approach in this area until the amendment is passed in order to strengthen the predictability of its actions for the market.

BOX 1: Banking identity as a modern means of electronic identification

In 2020, the CNB worked with the Ministry of the Interior, the Ministry of Finance, the Financial Analytical Unit and the Czech Banking Association on the preparation of an amending law for the introduction of a **banking identity**. The law amends Act No. 21/1992 Coll., on Banks, and Act No. 253/2008 Coll., on Certain Measures against Money Laundering and Terrorist Financing and took effect on 1 January 2021.

This law **extends banks' authorised activities to include client identification services**. Clients will thus be able to use their online banking login details to digitally verify their identity. This in turn will give them more convenient and easier access to selected public and private sector services. The provision of this service by banks is subject to prior accreditation from the Ministry of the Interior which allows banks to access selected public administration systems, such as the population register or the ID card register, to ensure proper identity verification.

Besides the existing methods of electronic identification (such as an electronic identity card (eIC) or the use of a data box), banking identity thus provides natural persons with another **trustworthy method of identity verification and of gaining access to public sector online services** (e.g. filing a tax return, obtaining an extract from the penalty points registry of drivers or an extract from the criminal records registry). It also allows them to sign documents electronically, as well as fill in forms automatically on the websites and in the applications of firms providing electronic services. The use of banking identity is also one of the options open to obliged entities (not only banks) to fulfil their obligation to identify their clients pursuant to anti-money laundering regulations. The potential scope of use of banking identity will depend on the individual banks and their approach to determining the level of guarantee for this means of identification.

Banks are required to reflect new processes related to banking identity in their internal regulations with regard to risk management and in accordance with the general obligation to proceed with caution when carrying on their activities. As regards compliance with prudential rules, these activities are subject to CNB supervision. They are, however, also supervised by the Ministry of the Interior as regards compliance with the rules for secure electronic identification, and by the Office for Personal Data Protection in respect of personal data protection.

Major legislative changes under preparation in the Czech Republic in 2020

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, and other laws in 2020. 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 transpose CRD V and incorporate 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. The measure is aimed at facilitating supervision of these institutions and possible resolution.

Under the amendment, the CNB will be 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 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 continued in 2020 with the opening of discussions in the Chamber of Deputies (Parliamentary Print No. 903). The law is expected to take effect the day after its promulgation.

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

In 2020, 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 the EU Official Journal in June 2019. The 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 amendment (Parliamentary Print No. 904) is expected to be approved and take effect in 2021.

Act on the Pan-European Personal Pension Product

In 2020, the CNB was involved in the preparation of a draft law on the Pan-European Personal Pension Product (PEPP), which aims to adapt Czech law to Regulation (EU) 2019/1238 on a Pan-European Personal Pension Product. The law under preparation will regulate the areas necessary for the functioning of the regulation in practice, in particular the CNB's areas of competence, infringements connected with a directly applicable EU legal act, the use of certain discretions and certain rights and obligations of PEPP providers, distributors and participants. The legislative process in the Czech Parliament will start in early 2021. The law is expected to take effect in the first half of 2022.

Act amending certain laws in the financial market area, especially in connection with the implementation of the European Union's legislation relating to the capital markets union

In 2020, the CNB was involved in the preparation of a law which includes an amendment to the Act on Bonds and an amendment to the Capital Market Undertakings Act. The law aims to implement EU legislation and primarily involves changes to prudential rules for investment firms, the harmonisation of the legislation governing covered bonds, the regulation of cross-border marketing of investment funds, the support of markets for the growth of small and medium-sized enterprises, obligations imposed by legislation in the area of green finances, amended by the Insurance Distribution Directive, and the Crowdfunding Regulation (Parliamentary Print No. 1117).

The provisions of Directive (EU) 2019/2162 on the issue of covered bonds and covered bond public supervision (CBD) are transposed into the Act on Bonds. The provisions of Directive (EU) 2019/2034 on the prudential supervision of investment firms (IFD) are transposed into the Capital Market Undertakings Act and the Act on Banks. This directive, together with the new Regulation (EU) 2019/2033 (IFR), sets out a new prudential framework for investment firms, which reflects the size and nature of these institutions. The Capital Market Undertakings Act also incorporates market support for the growth of small and medium-sized enterprises, for example, by introducing the SME growth prospectus, which aims to reduce the administrative burden of the prospectus for SMEs, or by limiting the scope of information disclosed in relation to market abuse. In particular, the new regulation regarding the obligations of a listed issuer removes the differences between the current Transparency Directive and the Capital Market Undertakings Act in order to avoid problems, especially with the application of the European Single Electronic Format (ESEF) for reporting by issuers.

The bill also introduces the regulation of sustainable finance into Czech law. In particular, it concerns adapting national legislation to Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector, an area that has not been regulated in the Czech Republic so far.

The amendments to Directive (EU) 2009/138/EC on the taking-up and pursuit of the business of insurance and reinsurance (Solvency II) implemented through Directive (EU) 2019/2177 are transposed into the amendment to the Insurance Act. The proposed changes concern the approval of full and partial internal models for the calculation of the solvency capital requirement and the approval of a group internal model. The bill introduces cooperation platforms aimed at strengthening the exchange of information and enhancing collaboration between the relevant supervisory authorities where an insurance or reinsurance undertaking carries out, or intends to carry out, activities on the basis of the freedom to provide services on a temporary basis or the right of establishment (establishment of a branch) and where these activities might have a significant impact on the market of the host Member State. It also refines regulation of the duty to maintain confidentiality and newly defines the CNB's information duties to the public, specifically the duty to publish final decisions on administrative penalties imposed on Czech insurance and reinsurance companies.

Draft law amending certain laws in connection with the development of the capital market

In 2020, the CNB was involved in the preparation of a law amending certain laws in connection with the development of the capital market, which was submitted to the Chamber of Deputies as Print No. 993. The draft amendment includes an amendment to Act No. 427/2011 Coll., on Supplementary Pension Savings. The bill includes, for example, the introduction of riskier alternative participation funds and the option of concurrent participation of a person in private pension and supplementary pension savings schemes. It also aims to change the rules applicable to bonds. The changes include a duty to provide additional information about the issuer in the issue conditions of bonds without a prospectus, the introduction of a regulation of subordinated bonds respecting the possibility to create several degrees of subordination, the possibility to create sub-funds for limited partnerships for investment certificates and joint-stock companies that are closed-ended investment funds, an extension of the competence of exchange courts of arbitration to all disputes that can be settled by an arbitrator and a duty for distrainers to use the XML format in communication with non-bank financial institutions.

BOX 2: Regulatory and supervisory aspects of the coronavirus pandemic response in 2020

The year 2020 was hugely affected by the spread of COVID-19, which had already reached global pandemic levels in the first quarter of 2020, slowing economies considerably and disrupting the functioning of financial markets. In response to the situation, the CNB adopted a number of stabilisation measures in the area of monetary and macroprudential policy, as well as measures in the areas of supervision and prudential regulation.

Assuming a substantial slowdown of the domestic economy, the CNB increased the frequency of monetary operations used to provide liquidity to banks as a preventive measure and, in a statement in March 2020, called on banks, insurance companies and pension management companies to **refrain from making dividend payouts or taking any other steps that might jeopardise their capital resilience** (a similar recommendation was issued by the European

Systemic Risk Board). This statement also addressed the **increased risks in the area of cyber security** and pointed to the need for compliance with all **rules of conduct and disclosure of information to clients** related to a limited supply of products and services due to anti-epidemic measures. The CNB also warned against the **risks associated with AML/CFT**, as the pandemic had made room for new types of illegal activities while it became harder to identify such activities due to changes in customer behaviour during the pandemic. Moreover, the CNB cut interest rates (to 0.25% in the case of the 2W repo rate), gradually lowered the countercyclical capital buffer to 0.5% from 1 April 2020 and relaxed its recommendations for the assessment of new retail mortgages.

The situation of banks was also affected by the possibility to postpone a proportion of client loans payments under **Act 177/2020 Coll.** on some measures in the area of loan repayment in connection with the COVID-19 pandemic (**the loan moratorium**) adopted in April 2020. The law allowed borrowers to postpone consumer credit and corporate loan payments, including mortgages negotiated before 26 March 2020, for three or six months, owing to the negative economic impacts the coronavirus pandemic had on the lender. The moratorium was binding on all bank and non-bank lenders, allowing instalments to be postponed in a relatively quick and easy manner on the basis of uniform rules. Following the adoption of the loan moratorium law, the CNB sent its expectations regarding credit risk identification and measurement in relation to this law to credit institutions in April 2020.

Since the start of the pandemic, the CNB has focused on evaluating the approach of institutions to setting the level of provisions and reserves for credit exposures, and determining the adequacy of available capital to cover expected and unexpected credit losses. In March 2020, the CNB informed credit institutions of its expectations regarding the assessment of the **classification of receivables** from debtors and in setting the level of provisions which would allow the flexible application of the existing rules. These expectations later followed up on the EBA statement on the application of the prudential framework regarding default, forbearance and IFRS 9 issued on 25 March 2020⁹ and its guidelines on legislative and non-legislative moratoria on loan repayments applied in light of the crisis caused by the COVID-19 pandemic issued on 2 April 2020.¹⁰

Due to the continuation of the coronavirus pandemic in the second half of 2020, the effects of which were only gradually – and to some extent – reflected in the quality of institutions' credit portfolios, the CNB sent another communication to all external auditors and credit institutions in October 2020, in which it outlined its supervisory **expectations regarding IFRS 9 models and the approach to provisioning**. In this document, the CNB put increased emphasis on credit institutions ensuring that their systems for calculating provisions and reserves respond appropriately to the impacts of the pandemic-induced crisis. In connection with the end of the statutory moratorium on 31 October 2020, the CNB also sent a document to credit institutions, the relevant associations and the Czech Chamber of Auditors regarding changes to the conditions for assessing the classification of receivables after the statutory moratorium ended.

After the EBA had issued its statement on reporting and information disclosure in light of COVID-19 on 31 March 2020, **the deadlines for submitting some reports were extended** for obliged institutions, as were the deadlines for disclosure, in an effort to provide relief. The CNB also informed issuers of listed securities that, in view of the situation, it accepted delayed compliance with regular information duties in justified cases.

Moreover, the CNB introduced **extraordinary reporting** aimed at closely monitoring and regularly disclosing data on postponed instalments under the loan moratorium and on loans provided under **state support schemes**, prepared by the government in cooperation with the Czech and Moravian Guarantee and Development Bank (ČMZRB) and EGAP to mitigate the economic impacts of the COVID-19 pandemic and support lending to the real economy, generally considered as being necessary to maintain and restore entrepreneurs' economic activity.

The statistics included data on the following schemes:

- COVID II – guarantees of up to 80% of the principal for operating loans of up to CZK 15 million to the self-employed and SMEs and a contribution to interest
- COVID Praha – guarantees for business activities in Prague
- COVID III – guarantees for loans to entrepreneurs with a maximum of 500 employees
- COVID Plus – guarantees for loans to support export companies

COVID III, announced in May 2020, was the most important loan programme in terms of the volume of loans drawn.

⁹ Statement on the application of the prudential framework regarding Default, Forbearance and IFRS 9 in light of COVID-19 measures.

¹⁰ Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID-19 crisis.

II.3 SELECTED CNB DECREES, OFFICIAL AND OTHER SUPERVISORY INFORMATION DOCUMENTS

The CNB published decrees, official information documents, a series of explanatory opinions, usually in the form of answers to frequently asked questions (FAQs), supervisory benchmarks and other supervisory communications on its website. Selected CNB regulatory documents issued in 2020 are listed below.¹¹

CNB Decree No. 267/2020 Coll., on reporting by a manager and an administrator of an investment fund or foreign fund to the Czech National Bank.

By issuing this decree, the CNB completed its review of the content and design of regulatory reporting in the area of management companies and investment funds. In particular, the new decree harmonised the time limits for reporting, and in some cases also reduced the reporting frequency. In 2020, changes to the content of regulatory reporting were proposed in connection with the requirement laid down in Article 4a of the decree on accounting regarding the valuation of financial instruments in accordance with international accounting standards, which took effect on 1 January 2021. The changes will better reflect the reporting of financial instruments in accordance with international accounting standards. Decree No. 267/2020 took effect on 1 July 2020.

CNB Decree No. 355/2020 Coll., on applications and certain information pursuant to the Act on Banks and the Act on Credit Unions

This decree, drafted on the basis of new powers conferred on the CNB by an amendment to the Act on Banks and the Act on Credit Unions, stipulates the essential elements for applications for consent to the conversion of banks and credit unions and other consents and their format, including other technical requirements. The decree repealed Decree No. 233/2009 Coll.,¹² which partially regulated this area, and took over from it the regulation of applications concerning a banking licence and credit union authorisation and consent to acquire or increase a qualifying holding. It newly defines the details of the essential elements of an application for consent to the conversion of a bank or a credit union and other consents pursuant to these acts (the dissolution of a bank or a reduction of its capital and the dissolution of a credit union or a reduction of the membership contribution, for example), which was previously regulated only by the CNB's official information document. The decree also stipulates the details of the essential elements of an application by a foreign bank for a licence to perform activities in the Czech Republic through its branch. The decree took effect on 1 October 2020.

CNB Decree No. 518/2020 Coll., on the submission of information by financial services intermediaries to the Czech National Bank

The decree sets out the rules, form and the manner of submitting statements, which the financial services intermediaries concerned are obliged to submit to the CNB for each calendar year by 31 March of the following calendar year. A statement as defined by the decree contains in particular basic information on the activities of a financial services intermediary, its financial situation and financial results, remuneration for mediation or provision of a service, the number of persons involved in the activities of a financial services intermediary and complaints received and information relating to the area of AML/CFT. The decree, which took effect on 1 January 2021, stipulates that the first statement shall be compiled by financial services intermediaries for 2021 and submitted by 31 March 2022.

Official Information of the CNB regarding the interpretation of the terms trustworthiness and competence (CNB Bull No. 18/2020)

On 5 August 2020, the CNB published an official information document in which it provides an interpretation of the terms trustworthiness and competence for the purposes of their initial and ongoing assessment as regards natural persons engaged by financial services providers supervised by the CNB, persons with a qualifying holding in financial services providers, and financial holding entities, insurance holding entities and mixed-activity financial holding entities. In most of the legal regulations

¹¹ A more comprehensive overview of selected explanatory and similar documents is given in part B, section IX. The CNB's regulatory activities in 2020. All documents are available on the CNB's website.

¹² Decree No. 233/2009 Coll. on applications, approval of persons and the manner of proving professional qualifications, trustworthiness and experience of persons, and on the minimum amount of funds to be provided by a foreign bank to its branch.

governing the financial market, the terms trustworthiness and competence are what is known as “uncertain legal concepts”. The CNB therefore used an official information document to provide information about its approach to assessing the trustworthiness and competence of persons. The approach is based, among other things, on guidelines of the European Supervisory Authorities.¹³

The CNB’s explanatory opinion regarding the suitability test performed in the provision of investment services

On 22 April 2020, the CNB published a set of ten questions and answers relating to the suitability test in the provision of investment services. The opinion states, among other things, that investment firms must have a strategy in place to assess the suitability of clients who are legal entities. It also states that investment firms must implement appropriate procedures to obtain up-to-date information about clients without having to update it before each investment. It specifies the scope of the questions that can be asked about a client’s financial background, where the scope is at least such that the client can bear the risks associated with the investment without significant negative effects and commensurate with his investment objectives. The opinion also explains how to verify the information obtained from clients and how to prevent them from giving misleading information. It also addresses whether a conservative client can be allowed to invest part of his assets in riskier tools. In principle, this is possible where the amount is small and negligible relative to the client’s total assets.

The CNB’s explanatory opinion regarding the Act on Some Measures in the Area of Loan Repayment in connection with the COVID-19 Pandemic

The CNB published this opinion on 15 May 2020 in response to numerous ambiguities in the interpretation of the impact of the protective period (moratorium) on loan agreements. In the opinion, the CNB provided guidance on the related rights and obligations of lenders (including the obligation on lenders to consider the impact of a drop in the interest rates on the classification of the performance of receivables and the exclusion of factoring from the scope of the law) and of borrowers (for example, the fact that the protective period did not apply to overdue payments or that legal entities were not allowed to request a deferral of interest payments during the moratorium).

The CNB’s explanatory opinion regarding insurance of the guarantee against bankruptcy of travel agencies

According to the CNB opinion published on 10 June 2020, insurance companies cannot make the settlement of insurance claims arising from the guarantee against bankruptcy of a travel agency conditional on a decision by the insolvency court certifying the bankruptcy of a travel agency. When examining an insurance claim, insurance companies are obliged to check for themselves whether a travel agency has gone bankrupt. In exceptional cases, a situation may arise, however, where it is not possible for an insurance company to reach the necessary conclusion regarding the bankruptcy of a travel agency without a decision by the insolvency court and conclude its examination of the claims. This must be assessed on an individual basis, however.

The CNB’s explanatory opinion on the registration of contracts on supplementary pension savings specifying the minimum content of the register of contracts on supplementary pension savings that independent intermediaries of supplementary pension savings are obliged to keep

The CNB published an update of this explanatory opinion on 18 November 2020 in response to, among other things, new legislation introduced by Act No. 119/2020 Coll., amending certain laws regulating financial market undertakings. The adoption of this law significantly changed the legislation governing the distribution of supplementary pension savings. In the opinion, the CNB specifies its expectations about which data on signed supplementary pension savings contracts will be entered in the register pursuant to Article 77h(e) of the Supplementary Pension Savings Act. Compared with the previous version of the opinion, the new version omits some unnecessary data and information on draft contracts that have not been ultimately signed.

¹³ For example, the EIOPA’s *Guidelines on system of governance* (2013), the ESAs’ *Joint Guidelines on the prudential assessment of acquisitions and increases of qualifying holdings in the financial sector*, (2016), and the EBA’s and the ESMA’s *Guidelines on the assessment of the suitability of members of the management body and key function holders* (2018).

The CNB's explanatory opinion on how the CNB will assess cases where persons cannot conduct the professional examinations required for the distribution of insurance due to the crisis measures related to COVID-19

On 27 November 2020, the CNB published this opinion in response to the situation which arose owing to a delayed approval of an amendment to transitional provisions of the Act on Insurance and Reinsurance Distribution. As the insurance distributors concerned had been required to pay an administrative fee by 2 December 2020 but the amendment was at that time not yet valid or effective, the institutions concerned were uncertain as to whether or not to pay the administrative fee for renewing their authorisation, which was at risk of not being extended due to their failure to pass the professional examination. As the amendment was to be adopted soon after that, the CNB declared that it would proceed with supervisory forbearance until it took effect. The CNB also informed the market that it had extended the deadline for payment of the administrative fee until 29 December 2020. The explanatory opinion fulfilled its purpose, which was to calm the situation on the market in advance. The amendment subsequently entered into force on time, i.e. on 11 December 2020.

Supervisory Benchmark No. 1/2020 regarding the obligation of payment services providers to reflect the requirements for strong customer authentication in information provided to clients in contractual documentation

The CNB published this benchmark on 14 December 2020 in which it defined in particular a minimum of information that payment services providers should take into account in contractual arrangements with users when authorising online payment orders. Specifically, contractual documentation should define users' security features (the security features required to authorise a transaction), two-factor (multiple-factor) authentication (the specific factors used to authorise a transaction, such as a password and having a mobile phone) and the steps to be taken by the client to approve a transaction (how the client should proceed in order for a transaction to be authorised).

Supervisory Benchmark No. 1/2020 regarding some duties of insurance companies and policyholders that apply to offering the possibility of becoming an insured person

In this supervisory benchmark of 4 March 2020, the CNB drew insurance companies' attention to their duty to properly manage and control policyholders who offer the possibility of becoming insured pursuant to Article 4 of the Act on Insurance and Reinsurance Distribution, as well as assessing the suitability of this distribution channel for a specific product's target market. The benchmark aims to ensure a comparable level of protection for clients (insured persons) when offering insurance through this distribution compared to that provided in the provision or intermediation of insurance by an insurance company or an insurance intermediary.

Supervisory Benchmark No. 2/2020 regarding the minimum requirements for organising professional examinations in a remote manner

The CNB published this supervisory benchmark on 7 December 2020 in response to the pandemic situation and the limited possibilities for on-site professional examinations which retail distributors are required to take with accredited entities. In the supervisory benchmark, the CNB informed accredited entities about its supervisory expectations regarding the minimum requirements for the technical and organisational prerequisites for conducting remote examinations in a proper manner.

The CNB's statement on the procedure for granting consent to the transfer of an insurance portfolio

On 4 August 2020, the CNB published a general information document on its procedure and competences when approving the transfer of an insurance portfolio or a part thereof in response to repeated misinterpretations by some media and interest groups of its role in the related administrative proceedings. In particular, the document defined the aspects the CNB takes into account when assessing an application for the consent to transfer an insurance portfolio, as well as the aspects that enable the CNB to reject the transfer pursuant to the Insurance Act.

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.¹⁴ 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, conduct of business and AML/CFT. These areas are supervised in a mutually consistent manner, reflecting the links between them.¹⁵

The CNB applies its supervisory powers by means of off-site surveillance 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

As in 2019, the CNB was supervising 24 domestic banks, including five building societies, as of the end of 2020. It was also supervising eight credit unions after a decision was taken at a membership meeting to liquidate the Družstevní záložna PSD credit union. To a limited extent, the CNB was also supervising 22 branches of banks from EU/EEA countries, i.e. one branch less than in 2019, since Česká spořitelna was granted consent to take over the Czech branch of Waldviertel Sparkasse Bank AG. Two branches of third country banks, both Chinese, continued to operate in the Czech Republic.

The CNB approved the merger of MONETA Money Bank, a.s. and Wüstenrot hypoteční banka a.s., as a result of which the latter ceased to exist as of 1 January 2021.

The situation in the credit institutions sector was significantly affected by the coronavirus pandemic in 2020. Both off-site surveillance and on-site supervision of credit institutions was concentrated mainly on the credit portfolio quality, capital adequacy, liquidity and overall performance of banks and their consolidated groups. Emphasis was placed mainly on the assessment of the impacts in the short and medium term, including stress scenario and sensitivity analyses to predict the potential effects of the crisis. In 2020, a pragmatic approach was applied to the Supervisory Review and Evaluation Process (SREP) in line with relevant EBA guidelines, which focused mainly on the ability of supervised entities to cope with the challenges of the crisis associated with the effects of the coronavirus pandemic. In this context, the CNB adjusted its supervisory procedures and introduced a number of additional monitoring tools, which it used to closely monitor individual credit institutions in all the main areas of activity. Supervision included, among other things, an assessment of the continuity of activities, the adequacy of risk management systems and the impact of providing relief to clients, including the legislative moratorium. In addition to extraordinary reporting, the CNB communicated with institutions on a regular basis via conference calls with the participation of the top management of individual institutions. In its communications to credit institutions, associations and the Chamber of Auditors, the CNB communicated its expectations regarding the payment of dividends (i.e. that institutions would refrain from making dividend payouts or similar actions which might jeopardise the resilience of individual institutions), expectations regarding access to relief and the legislative moratorium,

¹⁴ The CNB publishes lists of regulated and registered supervised entities on its website (www.cnb.cz > Supervision, regulation > Lists and registers).

¹⁵ Additional relevant supervision-related information is presented on the CNB website (www.cnb.cz > Supervision and regulation).

expectations regarding the institutions' approach to setting the level of provisions and buffers for credit exposures, and expectations regarding the classification of receivables whose contractual terms had been changed.

CNB supervision of credit institutions focused on the information security of digital channels, the use of which increased due to pandemic-related restrictions. The CNB paid special attention to the resilience of institutions to cyber attacks, especially phishing campaigns which occurred during the year. It monitored in detail security incidents and continuously assessed the measures adopted by credit institutions which affected IT risks. The assessment of cyber resilience was a key component of on-site examinations, which focused mainly on protection against advanced cyber threats and testing cyber resilience.

The CNB paid close attention to AML/CFT supervision. In line with the risk-oriented approach, supervisory procedures focused on the compilation of risk profiles of individual credit institutions and examinations of key areas with increased risk. The risk assessment is based on detailed information obtained by regular broad-based supervisory off-site surveillance. In response to the current risks, the CNB conducted several thematic correspondent surveys (for example, the identification of risks and measures applied in the area of AML/CFT associated with the coronavirus pandemic situation). On-site examinations assessed the effectiveness of the system of preventive measures applied by credit institutions, both generally in terms of the governance system, and in specific areas assessed as risk sensitive (in particular transaction monitoring, correspondent banking, trade financing and the implementation of international sanctions).

Owing to the continued pandemic situation and uncertainty regarding future economic developments, the assessment of the approach of banks to provisioning, setting risk weights for IRB models, and IS/IT cyber security will remain among the CNB's supervisory priorities.

BOX 3: THE IMPLEMENTATION OF STRONG CUSTOMER AUTHENTICATION FOR ONLINE CARD TRANSACTIONS

In 2020, the Czech National Bank, in line with EBA activities, monitored the preparation of payment services providers for **strong customer authentication for online card transactions**. **Strong customer authentication is based on the use of at least two separate elements** (something the customer owns or possesses, e.g. a mobile phone), **knowledge** (something the customer knows, e.g. a password or PIN code) and **biometrics** (something inherent to the customer such as a fingerprint or face recognition). In 2019, strong authentication was applied to non-card transactions using mobile and online banking and card transactions made at payment terminals in brick-and-mortar shops.

Previous customer authentication, which involved entering the information provided on the payment card (card number and the CVV/CVC code) and confirming the payment with a one-time password sent via text message, was not strong, as only the ownership criterion was met (possessing the SIM card with the number to which the one-time password is sent). Most payment service providers have opted for new **user authentication using mobile applications**, where the customer confirms transactions by entering a static (reusable) password (the knowledge factor) or using biometrics, and the mobile app is tied to a specific phone (the possession factor), so the condition for strong authentication, i.e. two-factor authentication, is met. Some providers have opted for a solution where transactions are authenticated as before, i.e. with a one-time password sent via text message (the possession factor) but with an additional static password for the payment card or "e-PIN" (the knowledge factor). This solution is suitable for clients who do not have a smartphone on which to install the mobile authentication app. An innovative solution for such clients is a one-time password sent via text combined with biometric authentication entered by the customer. In this case, the verification process of an online card payment does not change from the client's point of view, but is more secure due to strong authentication.

Most payment service providers, mainly banks, have been prepared for strong customer authentication for online card payments since 1 January 2021. However, some payment service providers launched their solutions with a slight delay. At the same time, some customers consider it problematic in cases where providers enable authentication for card transactions solely using a mobile app and these customers do not want to use this payment solution or do not own a device on which to install the app. One possible solution for users who do not have a mobile app might be to use an additional knowledge factor, i.e. a code or password assigned to the user solely for the authentication of online transactions that is different from the card's PIN or the customer's internet banking password.

Generally, card transactions should no longer be carried out without strong authentication. In some cases, however, payment service providers may refrain from carrying out strong authentication as legislation allows for certain

exemptions, for example, in the event of low amounts to be paid or recurring transactions (up to a certain amount).

In addition to monitoring all payment service providers and holding ongoing discussions with card schemes, the Czech National Bank prepared a communication for the public, in which it explained strong authentication. It also made a short information video on the topic. It also **published information for payment service providers on the obligation to reflect the requirements for strong customer authentication in contractual documentation with customers and the need to inform customers in a proper and timely manner about the introduction of strong authentication.** The Czech National Bank also kept the European Banking Authority (EBA) informed about progress in the implementation of strong authentication in the Czech Republic, was actively involved in discussions at the EBA and monitored the implementation of strong authentication in other EU Member States.

In the area of supervision of conduct of business in credit institutions in 2020, 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 closing payment accounts, (ii) the level of charges levied for cross-border transactions in euro (the charging of equal fees for domestic and SEPA payments within the EU), (iii) the provision of information on exchange rates and currency conversion charges, (iv) the use of strong customer authentication for accessing accounts and for internet and mobile banking payments, (v) the handling of clients' claims and complaints for 2019. The investigations identified numerous shortcomings, with the CNB mostly seeking voluntary remedy by credit institutions. The institutions concerned took corrective action in most cases. Nevertheless, the CNB continues to examine some of the cases. In the coming period, the CNB will concentrate on compliance with existing and new regulatory requirements in the conduct of business and consumer protection areas.

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 monitored compliance with depositories' duties arising from national and European legislation. In the area of investment service provision, the CNB focused on fulfilment of the obligations to clients, especially the assessment of the suitability of services provided with a consultancy element and taking into account customers' needs and objectives when creating, distributing and promoting investment instruments. In order to protect the integrity of the financial market, the adequacy of measures to prevent and detect market abuse was also examined. The CNB will continue to address product governance and promotion and the protection of market integrity in the coming period. Supervisory activities will also focus on the quality of market information under MiFIR and on informing clients of the costs.

In 2020, the CNB received a total of 1,071 submissions from the public regarding activities of credit institutions, 714 of which concerned the provision of payment, investment and deposit services and bureau de change activity, and 357 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 is that clients disagree with how the credit institution has handled their complaints. The number of submissions regarding the investment services area increased by 41% year on year in 2020. Overall, the CNB received 38 submissions from the public in the area of investment services. These concerned the execution of clients' orders and the provision of incomplete or false information to clients before arranging a transaction in an investment instrument.

In 2020, the CNB opened five new enforcement proceedings against credit institutions pursuant to the Act on Banks. Six decisions became final and conclusive, with proceedings being discontinued in four cases, a remedial measure being imposed in one and a fine of CZK 20 million in another. A fine was imposed on Expobank CZ a.s. for serious shortcomings in the governance system. This was the highest fine imposed by the CNB in 2020. The CNB also opened two additional proceedings under the Act on Certain Measures against Money Laundering and Terrorist Financing. Under this act, one decision imposing a fine of CZK 500,000 became final and conclusive in this sector.

III.2 SUPERVISION OF INSURANCE COMPANIES

The CNB was supervising 25 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 2020. To a limited extent, it was also supervising 17 branches of foreign insurance companies, all of them based in EEA countries, and also the cross-border marketing of insurance to consumers in the Czech Republic by foreign insurance companies based on the freedom to provide services on a temporary basis.

The most important proceedings in the insurance sector included the approval of the transfer of a part of the insurance portfolio of Pojišťovna Patricie a.s.¹⁶ and Česká pojišťovna ZDRAVÍ a.s. to Generali Česká pojišťovna a.s.¹⁷, which followed an approval granted in the previous year and involved the transfer of the remainder of the insurance portfolio with a foreign element. Other important proceedings included the approval of the acquisition of AXA pojišťovna a.s. and AXA životní pojišťovna a.s. by the UNIQA group.

In 2020, as part of the supervisory review process (SRP¹⁸), the CNB continued to focus on analysing the risk profiles of insurance companies, assessing their financial situation and performance, monitoring their capital and solvency position and assessing compliance with the conduct of business and consumer protection rules. Another key element of the SRP was assessing the configuration and quality of insurance companies' internal governance systems, with an emphasis on robust risk management systems. The standard supervisory tools also included ORSA¹⁹ analysis of reports submitted by insurance companies to the CNB.

In 2020, in response to the coronavirus pandemic, the CNB paid increased supervisory attention and allocated increased supervisory capacity to insurance companies' capital position and its management of insurance companies, monitoring financial market developments more intensively and assessing the impacts on the assets administered by the supervised insurance companies. The CNB used information submitted by the supervised insurance companies as part of regular regulatory reporting and information obtained in follow-up communication with individual entities to systematically monitor and assess insurance companies' financial and solvency position and performance. In addition to the existing reporting duty, the CNB imposed an extraordinary reporting requirement, which focused on the risks related to the impacts of the coronavirus pandemic. Increased attention was paid to insurance segments which are more affected by the pandemic.

The CNB also continuously monitored organisational changes in insurance companies and evaluated their impact on the companies' governance systems. As regards externally provided activities or outsourcing (including cases of intra-group outsourcing), the CNB evaluated the scope and nature of these activities. It put an emphasis mainly on the retention of strategic decision-making in insurance companies, their ability to ensure insurance business continuity and check the quality of services provided. The CNB has also long focused on monitoring the risks associated with the quality of asset and liability management in insurance companies. In 2020, it also focused on information systems, IT infrastructure and cyber security and the overall quality of the governance system in this area.

The CNB continued its activities in the area of premium sufficiency management for third-party vehicle liability insurance in 2020. It also 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. The results of the analyses were a key input for the planning and taking of relevant supervisory actions, both in relation to individual insurance companies and at the level of the insurance segment. As regards internal premium sufficiency management systems, insurance companies' internal governance processes are gradually being modified and streamlined, and insurance companies respond to supervisory findings and remedial measures imposed. The CNB considers the period after the stabilisation of the current situation caused by the pandemic to be of particular importance in this area. The potential impacts of the present situation caused by the ongoing pandemic and the related

¹⁶ Generali pojišťovna a.s. until 21 December 2020.

¹⁷ Česká pojišťovna a.s. until 21 December 2020.

¹⁸ Supervisory Review Process, a review by a supervisory authority pursuant to Article 36 of Solvency II.

¹⁹ Own Risk and Solvency Assessment, which insurance and reinsurance companies must perform under Pillar 2 of Solvency II.

measures on the financial market and insurance companies' investment strategies will remain a supervisory priority for the CNB in the period ahead.

In the area of conduct of business and consumer protection, the CNB conducted off-site surveillance and on-site examinations to reduce the likelihood of systemic shortcomings in insurance companies' activities. Although the CNB is proactive in its supervisory activities, the coronavirus pandemic had a significant effect on supervision last year. A large part of the supervisory work thus involved examining business continuity in the settlement of insurance claims, the provision of sufficient and clear information to clients, the maintenance or extension of insurance coverage (public promises) and monitoring the approach to the pandemic-induced needs of individual clients. Owing to government measures adopted in the first half of 2020, insurance companies were required to introduce new technology, especially as regards digitisation of many of its activities. Insurance companies focused mainly on ensuring a remote conclusion and administration of insurance policies and loss adjustment and an immediate and efficient switch to remote communication with clients. The insurance products offered were also revised to some extent. In this respect, the CNB focused its attention mainly on travel insurance.

The CNB conducted a number of thematic surveys, which focused among other things on (i) compliance with the requirements for supervision of a product and its management,²⁰ with an emphasis on consumer protection, (ii) compliance with the statutory requirements for dealing with claims arising from insurance of guarantee against bankruptcy of travel agencies for insurance companies and branches of foreign insurance companies which offer this insurance, including taking into account the impacts of the pandemic, (iii) an analysis of the application of formal and content requirements for the key investor information document²¹ across the market and in comparison with their practical application by selected insurance companies in other EU Member States, and (iv) the protection of consumers' rights arising from comprehensive health insurance for foreigners, with an emphasis on refunds of unused one-time premiums in the case of premature termination of the insurance contract.

In order to ensure a comparable level of consumer protection, the CNB also focused on the distribution of "fleet insurance", i.e. insurance through policyholders who allow other persons to become an insured person. In this context, the CNB has introduced a new reporting duty for domestic insurance companies which use this distribution channel.

Monitoring developments in relevant judicial decision-making practices and the way legal risk is managed by insurance companies in the configured governance system, including reflecting on developments in valid case law with implications for private law, also continues to be an important area for the CNB. Increased attention was paid to court judgements regarding investment life insurance and information about the CNB's role in this context, which is not always correctly perceived by the public.²²

The CNB was also actively involved in the ever-growing activities of 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.²³

²⁰ Pursuant to Directive (EU) 2016/97 of the European Parliament and of the Council on insurance distribution and Commission Delegated Regulation (EU) 2017/2358.

²¹ 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) and Commission Delegated Regulation (EU) 2017/653.

²² The CNB acts within the limits of its legal competence, which does not include assessing the validity of contractual arrangements between insurance companies and individual clients. This level of private law falls within the competence of the courts and (in the case of life insurance) also the financial arbitrator.

²³ In this area of supervision and on the basis of a coordinated approach by the supervisory authorities concerned, including the EIOPA, the CNB published, among other things, two notices of interim measures issued by the National Bank of Slovakia (NBS) for the NOVIS insurance company on 23 September 2020 and 24 November 2020. The first interim measure temporarily prohibited this insurance company from concluding new investment life insurance contracts, while the other temporarily prohibited it from disposing freely of its assets. The CNB supervises the activities of the branch of this insurance company in the Czech Republic.

The CNB also supervised the activities of foreign insurance companies operating in the Czech Republic on the basis of the freedom to provide services on a temporary basis, including the continued operation of insurance companies from the UK and Gibraltar in the Czech Republic in the context of Brexit.

As regards conduct of business and consumer protection, the CNB will focus on the distribution of insurance products in the period ahead. Emphasis will be placed on selected product categories and distribution channels, the choice of which is reflected in the differences in the extent and manner of providing information to clients. Supervision will also focus on fleet insurance and arranging (life) insurance online. Although the ongoing implementation of new technologies into the individual activities of insurance companies (e.g. the use of artificial intelligence in communicating with clients) is desirable and helps to streamline activities, compliance with legal rules cannot be overlooked. Compliance with the rules of conduct, and especially conduct of business, will remain subject to supervisory activities. As regards the regulatory framework in the area of sustainable finance, some insurance companies will be obliged to inform transparently whether their investment aims to be socially responsible, or whether their activities take into account ESG factors. The CNB will monitor insurance companies' approach in this area.

In 2020, the CNB received 521 submissions from the public which concerned supervision of insurance companies. The share of submissions from the public regarding insurance products in motor third party liability insurance has long been significant (33%). Also important were submissions by the public regarding insurance companies' behaviour in respect of life insurance products (13%), travel insurance (7%) and liability insurance (7%). About 6% of submissions were connected to the coronavirus pandemic, mainly in travel insurance. In this area, the submissions mostly pointed to shortcomings in insurance companies' procedures for loss adjustment and refunding premiums for cancelled trips. Generally, it can be said that the 2020 pandemic did not have a substantial impact on the volume of submissions from the public. Shortcomings identified or suggested on the basis submissions from the public concerned mainly dealing with claims and loss adjustment, insurance administration, the provision of inaccurate or incorrect information to clients when arranging insurance, and the handling of clients' complaints.

Although the Insurance Act does not permit the publication of specific penalty decisions, it can be disclosed that three new enforcement proceedings were opened in the area of supervision of insurance companies in 2020. Four decisions became final and conclusive in 2020. Remedial measures were imposed in two cases and fines were imposed in the remaining two cases, amounting to CZK 150,000 in each case.

III.3 SUPERVISION OF PENSION MANAGEMENT COMPANIES AND RETIREMENT FUNDS

At the end of 2020, the CNB was supervising nine pension management companies after Rentea penzijní společnost, a.s., part of the Partners financial group, was granted a licence. The number of supervised participation funds increased by one to 31. Akciový účastnický fond AXA penzijní společnosti, a.s. is a new participation fund.²⁴ The number of eight transformed funds remained unchanged. In addition, proceedings were conducted on consent to a change in the statute of all participation and transformed funds in connection with the switch to the IFRS 9 accounting standard. Other proceedings concerned consent to the discharge of office of director of a pension management company.

In 2020, 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.

As a result of the coronavirus pandemic, the CNB allocated increased supervisory capacity to monitoring and assessing the effects of the pandemic on PMCs' capital condition, profits and overall activities. In addition, it also observed financial market developments and assessed the impacts on the assets managed by the supervised entities.

²⁴ Akciový účastnický fond UNIQA penzijní společnosti, a.s. from 15 January 2021.

The CNB also assessed 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. The CNB also sought to remedy the findings identified in supervisory surveys conducted in the area of capital management.

The CNB received a total of 30 submissions from the public in the area of private pension schemes and supplementary pension savings in 2020. The flat trend in the number of complaints observed in previous years thus continued. The submissions concerned mainly the calculation of benefits and payments of savings to planholders, communication with planholders and dealing with their complaints and claims, as well as the offering and promotion of supplementary pension savings. Conduct of business shortcomings were not identified in any PMC in 2020. No enforcement proceedings were conducted against pension management companies or pension funds in 2020.

III.4 SUPERVISION OF INVESTMENT FIRMS

The CNB registered 39 entities holding an investment firm licence at the end of 2020, of which 16 were banks and 23 were non-banks. The CNB granted a new investment firm licence to REDSIDE Investments a.s. The number of branches of investment firms declined from 40 to 35.

CNB supervision of non-bank investment firms focused on checking compliance with the requirements of the transposition of the MiFID II into Czech law in 2018. The CNB took part in a peer review on compliance with the MiFID II suitability assessment rules focusing on the provision of investment advice, which was organised by the European supervisory authority ESMA. The review identified some shortcomings in the format of suitability reports, which did not contain obligatory information, were very brief, vague and comprised automated and general phrases without any relevant information benefit for the client. The shortcomings were subsequently addressed with the institutions concerned. The level of implementation of the MiFID II rules will continue to be examined in the period ahead, as will cooperation with ESMA on another peer review which will focus on the rules for creating and marketing investment instruments.

The CNB regards the cross-border provision of investment services to be an important area. Although a total of 14 non-bank investment firms are licensed to do so, four of them do not carry on this activity. Seven companies provide cross-border small-scale investment services in European countries, while the number of their customers in individual countries did not exceed 300. Only three non-bank investment firms exceeded this number of clients. All three provide investment services in Slovakia and one of them also does so in Bulgaria. The survey concerning the cross-border provision of investment services, in which the CNB participated in cooperation with ESMA in 2020, will be directly followed by another survey in the period ahead, in which the threshold for the definition of the provision of small-scale investment services will be lowered to 50 customers. The CNB will also collaborate with ESMA in this survey.

A new prudential regulation on IFR/IFD will be in effect from June 2021. As part of the transition to the new regulation, the CNB was involved in an analysis of the costs, benefits and impacts on the investment firm market produced by the EBA. Data was collected and their consistency verified in several steps between the CNB and investment firms and also between the CNB and the EBA. The required data concerned capitalisation under the current CRR/CRD prudential framework and under the new IFR/IFD regulation. The analysis also included the collection of data on investment firm groups. The CNB identified seven groups of investment firms in the non-bank investment firms sector, one of which also operates across borders.²⁵ The results of the analysis indicate lower than expected impacts of the new prudential regulation on the overall capital situation of investment firms. The current capitalisation of most of the Czech investment firms participating in the survey seems to be sufficient even under the new prudential regulation.

Given the persisting problems with the activities of foreign entities providing investment services, mainly for high-risk investment instruments, cooperation with their home supervisors will continue. In 2020, complaints about foreign entities or their branches and tied agents in the Czech Republic accounted for 71% of the submissions from the public concerning investment firms.

²⁵ In addition to a Czech investment firm, this group includes an investment firm licensed in Monaco.

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 addition to closer cooperation with the supervisory authorities that licensed the foreign investment firms, supervisory work focused on checking whether foreign investment firms have adapted to the amendment to the Capital Market Undertakings Act effective since May 2020. Under this amendment, foreign investment firms may provide 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 may continue to provide services permanently without establishing a branch. The 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, which is subject to the statutory information duty to the CNB.

Given the persisting breach of legal duties, examinations in 2020 also focused on the provision of services by foreign investment firms. Examinations were mainly conducted on tied agents of foreign investment firms, most of which ceased operations as a result during the course of the examination. The completed examinations typically revealed shortcomings in communication with customers, the provision of incorrect information about the nature of business and the risk properties of the financial instruments offered, and the misclassification of customers into categories based on their ability to handle risks. Shortcomings in the internal control system and in the application of certain AML/CFT measures were identified in investment firms and their branches. Measures were proposed in administrative proceedings for more serious shortcomings.

In 2020, six enforcement proceedings pursuant to the Capital Market Undertakings Act and one pursuant to the Act on Certain Measures against Money Laundering and Terrorist Financing were opened in the investment firms sector. Seven decisions became final and conclusive. A fine of CZK 2 million was imposed on Komerční banka a.s. for failure to store records of telephone communications with clients. Sberbank CZ a.s. was fined CZK 2.5 million for breach of the same obligation and for breach of duties in its bureau-de-change activity. Fines totalling CZK 710,000 were imposed in an additional five cases. Furthermore, the decision to impose a fine of CZK 50,000 under the Act on Certain Measures against Money Laundering and Terrorist Financing became final and conclusive.

III.5 SUPERVISION OF MANAGEMENT COMPANIES AND INVESTMENT FUNDS

The CNB registered 37 management companies, two branches of foreign management companies, one primary administrator, 6 depositories, 185 investment funds with legal personality (of which 28 autonomous investment funds) and 234 mutual funds at the end of 2020. It granted licences to four new management companies: MONECO investiční společnost, a.s., CENTRAL EUROPEAN FINANCIAL MANAGEMENT investiční společnost, a.s., WOOPE investiční společnost a.s. and NWD investiční společnost, a.s. Licenses were also granted to two autonomous investment funds, one of which is Národní rozvojový fond SICAV a.s., founded by Českomoravská záruční a rozvojová banka, a.s. The fund is to become one of the key instruments for the government's investment policy.

In 2020, the CNB worked with ESMA on a peer review of liquidity management in standard funds. The peer review, which also included selected managers of standard funds in the Czech Republic, showed differences in managers' approaches on the European market. The identified shortcomings in liquidity management will be used in a broad survey among managers of collective investment funds in the Czech Republic, which will be conducted by the CNB in 2021.

At the start of 2020, a decline in assets was recorded in collective non-real estate investment funds, and this accelerated in March 2020. Uncertainty on financial markets in March 2020 and subsequent negative net sales led to the introduction of an extraordinary reporting duty for these funds. This enabled the CNB to observe net sales, the value of assets and funds' performance daily from 20 March 2020 and weekly from June 2020. The value of the assets in collective investment funds rose steadily, but did not exceed the early-2020 level until November 2020. A decision was taken to terminate this extraordinary reporting requirement at the end of 2020 due to relative stability on financial markets in 2020 Q4.

In the area of fund investment, examinations focused on checking compliance with the obligations set out in the directly applicable EU legislation and the Act on Management Companies and Investment Funds. The CNB examined the performance of activities with professional care, management of conflicts of interest, risk management, outsourcing and valuation of assets. The most common violations were shortcomings in entities' internal regulations and the related shortcomings in their activities, which included in particular incorrect determination of clients' risk profile, incorrect valuation of illiquid shares and bonds, shortcomings in producing analyses of economic benefits of trades, limited to check or influence the performance of delegated activities, a low time provision for performing key positions and their inadmissible overlapping. More serious shortcomings were proposed to be resolved in administrative proceedings.

The CNB opened 19 enforcement proceedings in the area of management companies and investment funds in 2020, with 18 decisions becoming final and conclusive. Fines were imposed in six cases, and in a further eight, fines were imposed and the companies concerned were simultaneously deleted from the register of persons conducting asset administration comparable to asset management. A unit trust was dissolved in one case (Uzavřený podílový fond CARDUUS Opportunity II., CARDUUS Asset Management, IS, a.s.) and proceedings were discontinued in three cases. The fines imposed under the sectoral law totalled CZK 1,250,000. The highest fine of CZK 300,000 was imposed on two companies, a tied agent of Allianz kontakt, s.r.o., and TESLA investiční společnost, a.s. In addition, the CNB also opened one additional proceeding under the Act on Certain Measures against Money Laundering and Terrorist Financing. One decision to impose a fine of CZK 100,000 became final and conclusive under this Act.

III.6 SECURITIES ISSUES AND REGULATED MARKETS

Securities of 107 companies²⁶ (compared to 122 at the end of 2019), of which 71 were fully subject to CNB supervision as regards compliance with information duties,²⁷ were admitted to trading on a European regulated market as of the end of 2020. Supervision in this area focused mainly on reviewing the content of annual and semi-annual reports of all supervised issuers and reviewing in detail the application of IFRS international accounting standards in the financial statements of selected issuers.

Securities of five issuers (bonds in four cases, shares in one case) were newly admitted to trading on a regulated market in 2020. By contrast, securities of 20 issuers were excluded from trading (three of them were shares excluded at the decision of the issuer or regulated market operator and 17 were bonds excluded because of due or early redemption).

The number of supervised entities in the market infrastructure area was unchanged in 2020. 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 central depository (Centrální depozitář cenných papírů a.s.) and one benchmark administrator, namely the PRIBOR interbank rate administrator (Czech Financial Benchmark Facility, s.r.o.).

Issuers' information duties

The CNB performed standard checks of issuers' reporting duties (checks of the annual and half-yearly reports of all more than 70 issuers and detailed checks of the application of IFRS international accounting standards in selected financial statements) and pointed out deficiencies, which were subsequently eliminated by the supervised entities. Owing to the coronavirus pandemic, acceptance of the possible postponement of the publication of the annual report for 2019 by two months had been agreed within ESMA (i.e. a shift from the end of April to the end of June). The CNB informed issuers about this on its website at the end of March

²⁶ 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.

²⁷ The remaining cases were issuers whose home supervisory authority was the supervisory authority of another EU Member State (9) or issuers whose home supervisory authority was the CNB but enjoyed one of the exemptions from the information duties (27).

2020, and 26% of issuers availed of this option. Issuers were also continuously informed about the change in the format of annual reports for 2020 and the change in the manner of sending them to the CNB.

Approvals of securities prospectuses

A total 84 administrative decisions on the approval of documents connected with securities issues (securities prospectuses and supplements thereto) were issued in 2020, compared to 70 in 2019. They mostly involved bond prospectuses of issuers active in property development. This also includes three share prospectuses for offers to the public using the START – Veřejná nabídka system operated by the Prague Stock Exchange (PSE) and three prospectuses for the admission of shares to trading on the PSE's regulated market.

Takeover bids and squeeze-outs

The CNB conducted one proceeding with respect to squeeze-outs in 2020, during which it granted prior consent to the squeeze-out of minority shareholders of PFNonwovens a.s.

Market infrastructure

In the market infrastructure area, the CNB concluded proceedings concerning an extension of its central securities depository licence to include settlements in euro under the Central Securities Depository Regulation and the registration of the administrator of the indices used as benchmarks for the PSE (PX indices). It also conducted two proceedings with the PSE concerning the suspension of waivers from the market transparency obligation under the MiFIR²⁸ and assessed changes in trading rules. During the year, repeated Xetra T7 trading system outages were recorded, which resulted in a delayed start or suspension of trading, including on the PSE. No misconduct by the PSE was identified in this regard. The CNB conducted its regular review and assessment of compliance of the CSDP with CSDR and opened proceedings for the approval of changes to the CSDP settlement system rules. It also assessed 38 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.²⁹ Data on internalised settlements (settlement directly with traders outside the settlement system) were assessed quarterly and the related report was sent to ESMA.

In the securities issuers' area, five enforcement proceedings were opened in 2020. Six penalty decisions became final and conclusive in 2020. Fines were imposed in all six cases. The highest fine of CZK 5 million was imposed on DRFG a.s. The fines amounted to CZK 7,050,000 in all.

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

At the end of 2020, the CNB registered 23 payment institutions, nine branches of payment institutions, one electronic money institution, three branches of an electronic money institution and three payment account information administrators. One new licence for the pursuit of business of a payment institution was granted to Bestpay s.r.o. and one authorisation to administer payment account information was granted to 1. PF Finance s.r.o.

Following the implementation of EU Directive by Act no. 370/2017 Coll., on Payment Systems, effective from 13 January 2018, the number of new licence applications for different types of entities remained elevated in the payment system sector: payment institutions, electronic money institutions, small-scale payment service providers, small-scale electronic money issuers and payment account information administrators. A total of 40 new applications were received in 2020 and 59 proceedings were ongoing as of 31 December 2020. Applicants had particular problems describing their business plans, which are decisive for determining the type of authorisation, presenting realistic business plans and submitting a promise to enter into an agreement or a concluded agreement demonstrating in the licensing proceedings that the funds entrusted for the performance of payment transactions were protected. In 2020, decisions were taken on 47 applications (seven permits were issued, 32 proceedings were discontinued and eight applications were rejected. The incidence of suspended proceedings or rejected applications is not as high in other financial market sectors.

²⁸ Regulation (EU) 600/2014 of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments.

²⁹ Regulation (EU) No. 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories.

As part of off-site surveillance, the CNB also monitored the implementation of strong customer authentication in electronic card transactions by payment institutions and electronic money institutions (issuers and acceptors of payment cards) in 2020. The deadline for the additional introduction of strong client authentication was set by the EBA by the end of 2020. In the payment card issuer sector, strong customer authentication was implemented in line with the relevant migration plans and all payment cards enabled strong customer authentication within the set deadline when initiating transactions via the internet. In the segment of payment card acceptors, the vast majority of retailers (99.9%) , which are served by these entities, were also ready for the relevant technological framework at the end of the year (for details on the implementation of strong customer authentication for card transactions see Box 3 on p. 27).

Supervisory activities also focused on checking compliance with the duty to protect funds intended for the execution of payment transactions (or the issuance of electronic money) by non-bank payment service providers (to be compliant with the duty, the providers must deposit clients' funds in accounts with banks or credit unions). The survey showed that 7% of entities do not have an account with credit institutions for the protection of funds. Nevertheless, a large number of these entities did not provide payment services (in such a case, the CNB may revoke the licence due to inaction). One of the entities deposited clients' funds in an account with another non-bank payment service abroad (in this case, the statutory condition is not fulfilled either). The survey and the assessment of its results (including follow-up actions against the supervised entities) will continue in the period ahead.

As regards AML/CFT, the CNB focused on the updating and comprehensive evaluation of the risk profiles of payment service providers and electronic money issuers, which was used in preparing for the implementation of guidelines for AML/CFT supervisory colleges. Following this survey, a large number of non-bank payment service providers were assessed as being risky from this perspective. The results of the assessment were taken into account when planning on-site examinations for the coming period.

Information obtained during inspection and supervisory work reveals core findings concerning the activities of small payment service providers and electronic money issuers who provide services on the basis of an exemption from PSD II³⁰ and can thus provide their services only within the Czech Republic. The identified problematic aspects relate to the nature of some of these entities, their business activities and client focus. These entities formally present themselves as entities intending to provide payment services in the Czech Republic mainly to Czech citizens or firms, but in reality they are owned by foreign nationals and clearly target only foreign clients. These entities thus use the domestic legislative environment for their business activities, without often having at least minimum ties with the Czech market. Moreover, on-site examinations identify recurring shortcomings in the form of inconsistencies between the business plan submitted in the licensing proceedings and the entity's actual activities and shortcomings arising from the formal regulation of processes and activities in internal rules, which do not correspond to the actual functioning of these entities. These are mainly shortcomings in the protection of clients' funds, compliance with AML/CFT duties and compliance with the reporting duty to the CNB and the information duty to payments service users.

In the period ahead, the CNB's supervisory work will continue to focus on the problematic aspects of the activities of the above providers, primarily on verifying that the activities actually performed are consistent with the declared business plan, demonstrable links between the provider and the domestic market and clients, protection of funds and the proper configuration of and compliance with AML/CFT measures. Supervision will also focus on monitoring the application of strong customer authentication in electronic card transactions and of exemptions from this duty by payment institutions and electronic money institutions.

The CNB opened 38 enforcement proceedings under the Payment System Act in 2020. In all, 42 decisions became final and conclusive. Fines were imposed in 11 cases, licenses were revoked in 10 cases, and in three cases, fines were imposed and licenses revoked. Licenses were revoked in 12 cases due to the inaction of the companies concerned. Proceedings were discontinued in 17 cases and the administrative penalty was waived in one case. The fines imposed under the Payment System Act totalled CZK 835,000. The highest fine in this sector was CZK 300,000 and was imposed on ABAPAY s.r.o. Furthermore, one

³⁰ Directive (EU) 2015/2366 of the European Parliament and of the Council on payment services in the internal market.

decision to impose a fine of CZK 50,000 for a breach of the Act on Certain Measures against Money Laundering and Terrorist Financing 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. At the end of 2020, the CNB supervised 111 consumer credit providers (85 non-bank providers and 26 credit institutions). No further licences to provide consumer credit were granted in 2020. One non-bank provider, BB Finance Czech s.r.o., terminated its activities in 2020.

In 2020, given the overall social situation, the CNB's supervisory work focused primarily on the approach of providers in dealing with consumer applications for the deferral of loan instalments in connection with the pandemic. A total of 470,106 applications for the deferral of instalments were received during the statutory moratorium³¹, 87% of which were subsequently approved. The average amount of deferred instalments was CZK 29,866. Monitoring continued even after the moratorium had ended, with consumer credit providers granting deferrals only on an individual basis. The initial data received suggested that consumer interest in the deferral of instalments had dropped by about a half (the CNB will continue to monitor this in 2021).

In 2020, the CNB completed examinations of providers of micro-loans, i.e. consumer credit payable in one lump sum (usually within 30 days). A total of 25 non-bank providers operate in this segment. From the CNB's perspective, this is the riskiest group of providers, as the creditworthiness of consumer credit applicants is not assessed properly and the subsequent maturity extension is often provided at a very high fee, which ultimately leads to a pronounced increase in the amount due.

As in 2019, attention was paid to billing for the actually incurred costs that can be claimed from consumers in connection with early repayment of consumer credit for house purchase. Both the official investigation and submissions received from consumers confirmed non-compliance with the relevant statutory provisions by some credit institutions (32% of all submissions concerned this subject). The CNB deals with these cases using the instruments made available to it by law.

In 2020, the CNB opened eight new enforcement proceedings under the Consumer Credit Act and five decisions became final and conclusive. Fines were imposed in three cases. In one case, a fine was imposed and the accreditation to organise professional examinations was withdrawn. Proceedings were discontinued in one case. The fines imposed totalled CZK 6.15 million. Consumer credit provider Creditstar Czech s.r.o. was fined CZK 4 million and Český Triangl, a.s. was fined CZK 2 million. In all cases, the most serious violation concerned incorrect assessment of consumer credit applicants' creditworthiness.

III.9 SUPERVISION OF RETAIL DISTRIBUTORS

In the area of testing the expertise of retail distributors, the CNB conducted a comprehensive update of all three sets of existing examination questions to test the expertise of distributors in the areas of insurance, investment and consumer credit last year. The sets of test questions are used by accredited entities (entities authorised by the CNB to examine financial services providers or intermediaries) to test expertise. There were 71 accredited entities as of 31 December 2020, some of which are authorised for up to four sectors. The highest number of professional examinations was taken by insurance distributors in 2020 (see Table A.1).

Table A.1 Number of professional examinations taken in 2020 and their success rate

Sector/legislation	Total tests	Of which successful	Success rate
Consumer Credit Act	7,910	5,232	66.1%
Capital Market Undertakings Act	8,187	4,225	51.6%
Act on Insurance and Reinsurance Distribution	52,375	37,091	70.8%

³¹ The period from 17 April 2020 to 31 October 2020 pursuant to Act No. 177/2020 Coll. on certain measures in the area of loan repayment in connection with the COVID-19 pandemic.

The introduction of fees for extending the validity of the authorisation in individual sectoral laws plays a positive role for intermediaries of financial products, while their amount is set by the Act on Administrative Fees. These renewal fees clear the list of those intermediaries who do not or no longer intend to operate (for details see Table A.2). In total, intermediaries of financial products paid CZK 29,556,000 in administrative fees in 2020.

Table A.2 Intermediaries of financial products who ceased to operate due to non-payment of the administrative fee for extending the authorisation

	Number of entities subject to extension as of 1 October 2020	Number of defunct entities due to unpaid fees	Share of defunct entities (in %)
Intermediaries pursuant to the Act on Insurance and Reinsurance Distribution	35,001	4,505	12.9
of which:			
Independent intermediaries	1,120	266	23.8
Tied agents	29,854	3,778	12.7
Supplementary insurance intermediaries	4,027	461	11.4
Intermediaries pursuant to the Capital Market Undertakings Act	11,168	1,700	15.2
of which:			
Investment intermediaries	160	8	5.0
Tied agents	11,008	1,692	15.4
Intermediaries pursuant to the Consumer Credit Act	17,374	801	4.6
of which:			
Independent intermediaries	297	17	5.7
Tied agents	15,128	665	4.4
Intermediaries of specific-purpose consumer credit	1,949	119	6.1

In 2020, **insurance intermediaries' registrations** were also affected significantly by the coronavirus pandemic, as it was not possible to take professional examinations pursuant to the Act on Insurance and Reinsurance Distribution due to the anti-pandemic measures. At the same time, all persons engaged directly in the distribution of insurance and reinsurance were required to have passed the examination as of 1 December 2020 (for a detailed description of the situation see Box 4 below).

BOX 4: REGISTRATION OF INSURANCE INTERMEDIARIES AND THE CORONAVIRUS PANDEMIC

The sale of insurance is largely arranged by insurance intermediaries, whose activities are therefore properly regulated in order to protect customers. This is reflected in the duty to comply with certain qualification requirements (taking professional examinations), pay an administrative fee and be registered with the CNB.

The transitional period was originally to end on 1 December 2020, by which time all persons engaged directly in the distribution of insurance and reinsurance had to take professional examinations and, after passing this examination, submit a notification of compliance with the necessary professional qualifications to the CNB. The coronavirus pandemic rendered it impossible to hold professional examinations for some time, which could have led to hundreds of independent insurance intermediaries losing their registration (of the around 1,100 intermediaries to which the duty applied). This would have prevented them from legally acting as insurance intermediaries. The CNB was therefore actively involved in efforts to address the situation swiftly. In cooperation with the Ministry of Finance, it helped amend the relevant provisions of the Act on Insurance and Reinsurance Distribution in a timely manner to eliminate the threat of paralysis of the insurance market. It also published an opinion on its website on 27 November 2020, in which it announced supervisory forbearance in relation to the supervision of compliance with legal duties in the bridging period, i.e. until the Act took effect. On 7 December 2020, the CNB also published Supervisory Benchmark No. 2/2020

regarding the minimum requirements for holding professional examinations remotely to allow it to communicate its supervisory expectations and enable insurance intermediaries and other retail distributors to take professional examinations with accredited entities remotely.

An amendment to the Act on Insurance and Reinsurance Distribution took effect on 11 December 2020. **This amended the condition for extending the authorisation of the above independent intermediaries in the form of the aforementioned notification.** The amendment extended the period for submitting this notification until 1 June 2021 and also postponed the deadline for payment of the administrative fee for extending the authorisation from 2 December 2020 until 29 December 2020. Thanks to the amendment, it was possible to extend the authorisation even for those insurance intermediaries who were yet to take professional examinations.

Supplementary pension savings distributors have a separate authorisation with effect from 1 April 2020. Instead of the current registration necessary to extend an investment intermediary licence or a bank or non-bank investment firm licence, authorisation to perform the activities of an independent intermediary is now required. In accordance with the transitional provision, 99 entities were transformed and nine additional independent intermediary authorisations were granted in 2020. Similarly, instead of extending the entry of a tied agent of an investment intermediary or investment firm, a tied agent is now entered in a register pursuant to the Supplementary Pension Savings Act. Such entry in the register is also a separate form of authorisation. A total of 10,777 tied agents had been transformed as of 1 April 2020. An additional 2,350 entities were subsequently entered in the list during 2020.

The conduct of CNB supervision was focused mainly on the compliance of individual categories of intermediaries with the statutory requirements for the distribution of financial products under the relevant sector-specific laws, and on the activities of accredited entities. The CNB conducted a number of thematic surveys concerning, for example, product management in the area of investment and insurance product distribution, measures taken by distributors in connection with the coronavirus pandemic, the assessment of suitability and appropriateness in the provision of investment services, and proper entry in the register of independent intermediaries' links pursuant to the Supplementary Pension Savings Act, the activities of distributors, and the activities of accredited entities in organising professional examinations. Besides the retail distributors sector, the CNB's inspection activities focused on the activities of accredited entities in organising professional examinations in the insurance area and 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.

As regards insurance distribution, the most frequent shortcomings pertained to compliance with the rules of conduct towards clients. This included shortcomings in compliance with the duty to obtain information from clients and to provide them with recommendations or advice before concluding policies, including the duty to make records of such negotiations, and compliance with information duties to clients, especially the provision of pre-contract information. A considerable number of shortcomings in internal control were also identified.

In the area of investment intermediation, shortcomings also pertained to compliance with the rules of conduct towards clients, for example, insufficient obtainment of client information and, conversely, insufficient provision of information to clients. Other identified shortcomings consisted in the provision of investment services in relation to investment instruments for which investment intermediaries are not authorised to provide investment services, as well as in transmitting orders to foreign entities. Such shortcomings point to insufficient configuration of the governance system, which the CNB also identified during on-site examinations.

In the area of consumer credit intermediation, shortcomings consisted in non-compliance with information duties, e.g. vis-à-vis loan co-applicants, and unauthorised business where entities displayed the features of consumer credit intermediation in their activities but lacked the necessary authorisation.

As regards supplementary pension savings distribution, shortcomings were identified in the configuration of the rules for this activity, especially with regard to internal control and notifications of changes to data entered in the register (for example, links to cooperating pension management companies).

The CNB also paid attention to the supervision of accredited entities, which are entitled to organise professional examinations on the financial market. In connection with the pandemic and restrictions concerning the holding of on-site professional examinations, the CNB began discussions in spring 2020 with accredited entities and the Ministry of Finance on the possibility of organising professional examinations remotely. As part of its supervisory activities, the CNB continuously monitored the organisation of professional examinations and their capacity, mainly in light of the imminent end of the transitional period pursuant to the Act on Insurance and Reinsurance Distribution. It subsequently published Supervisory Benchmark No. 2/2020 summarising the minimum standards to be met by accredited entities to ensure proper organisation of professional examinations remotely and effective conduct of CNB supervision.

In addition, the CNB worked intensively on the preparation of the statement for a financial services intermediary. This work included in particular drafting a decree and its justification, addressing the comments received in the interdepartmental comments procedure, creating a detailed methodology for the statement and preparing an information campaign for entities subject to the reporting duty. The CNB's decree was promulgated in the Collection of Laws in late 2020 and the first data for 2021 will be submitted to the CNB by 31 March 2022.³²

In the period ahead, the CNB's supervisory and inspection activities will continue to focus on the compliance of retail distributors with the statutory requirements with regard to conditions for the performance of their activities and compliance with duties relating to conduct towards clients, as well as from the perspective of the implementation of new AML rules. The CNB will also pay attention to the activities of accredited entities, including the organisation of professional examinations remotely and the organisation of subsequent education programmes.

In 2020, six enforcement proceedings were opened against insurance intermediaries pursuant to the Act on Insurance and Reinsurance Distribution, and eight decisions became final and conclusive. Fines were imposed in seven cases and the independent intermediary licence was revoked in one case. The highest fine imposed totalled CZK 300,000. The fines imposed in this sector amounted to CZK 840,000 in all.

The CNB opened 11 enforcement proceedings against investment intermediaries under the Capital Market Undertakings Act in 2020. In all, 13 decisions became final and conclusive. Fines were imposed in 10 cases, the investment intermediary licence was revoked in one case, and the proceedings were discontinued in two cases. The fines imposed totalled CZK 4,100,000. The highest fine of CZK 3 million was imposed on Investment Bureau s.r.o. for unauthorised provision of investment services.

In 2020, the CNB opened 10 enforcement proceedings against consumer credit intermediaries, and six decisions became final and conclusive. Fines were imposed in all six cases. The total amount of fines imposed in 2020 was CZK 590,000 and the highest fine was CZK 300,000.

III.10 SUPERVISION OF BUREAUX DE CHANGE

The coronavirus pandemic, the related anti-epidemic measures and the downturn in tourism during the year significantly affected bureau de change activity. This was reflected in an increasing number of applications for the revocation of a licence, which reached 78 in 2020. This was due chiefly to the adverse situation of accommodation services providers, travel agencies etc., for which bureau de change activity was a sideline activity. As of the last calendar day of 2020, the CNB had registered 882 bureaux de change, while in 2020, 26 bureaux de change were granted licences and 95 terminated their activity.

At the start of 2020, before the onset of the pandemic, inspection activities continued to be focused intensively on bureaux de change in tourist locations in the Czech capital offering clearly unfavourable exchange rates. The CNB's inspection activities in this area focused above all on checking whether clients were allowed to withdraw from an exchange transaction agreement within three hours of its execution and checking compliance with the ban on publishing VIP rates.

³² Decree No. 518/2020 Coll., on the submitting of information by financial services intermediaries to the Czech National Bank.

For the rest of 2020, the inspections focused primarily on compliance of bureaux de change with duties relating to the AML/CFT area, in particular the identification of clients for transactions exceeding the equivalent of EUR 1,000, including checking whether the amount exchanged is deliberately divided into amounts below this threshold to circumvent the law. The CNB also focused on the update and comprehensive assessment of the risk profiles of bureaux de change. Almost one-third of the selected sample of 300 entities with the largest volumes of exchange transactions executed were assessed as having a risky profile and will remain subject to subsequent supervisory activities, including on-site examinations.

As part of its off-site surveillance activities, the CNB also dealt with submissions from the public drawing attention to breach of duties of bureaux de change. The number of complaints received significantly declined on a year earlier. Most of them concerned unfavourable exchange rates and non-compliance with the information duty to clients, where no pre-contractual information was provided or the bureau de change did not issue a receipt for the transaction or confirmation of withdrawal from the exchange transaction.

A total of 16 enforcement proceedings were opened for violation of the Act on Bureau de Change Activity in 2020. The CNB issued 21 final and conclusive decisions. Fines were imposed in 11 cases, a fine was imposed and a bureau de change licence was revoked in seven cases, a licence was revoked in one case and a fine was imposed together with remedial measures in two cases. The fines imposed in this sector totalled CZK 12,380,000. The highest fines coupled with licence revocations were imposed on PEMEX change s.r.o. (CZK 3 million), CHIVAS INVEST s.r.o. (CZK 2.5 million), Exclusive Change, s.r.o. (CZK 2 million), Lumex s.r.o. (CZK 1.5 million) and Changer s.r.o. (CZK 1.5 million). The most frequent shortcomings were the publication of exchange rate lists not containing the information required by law, the publication of different exchange rates than those contained in exchange rate lists, failure to return money received from clients without undue delay, and breach of duties in the AML area. In many cases, these were repeated violations detected during follow-up examinations. Furthermore, three decisions regarding violation of the Act on Certain Measures against Money Laundering and Terrorist Financing became final and conclusive. Fines were imposed in all three cases. The fines imposed on bureaux de change under this law totalled CZK 220,000.

III.11 SUPERVISION IN THE AREA OF BANKNOTE AND COIN CIRCULATION

The CNB supervised compliance with the Act on the Circulation of Banknotes and Coins and the directly applicable EU legal rules to which this law relates. In this area, it supervised mainly credit institutions providing cash services and handlers of domestic banknotes and coins.

The CNB opened six enforcement proceedings under the Act on the Circulation of Banknotes and Coins in 2020. Five decisions became final and conclusive. Fines were imposed in all five cases. The highest fine of CZK 1.5 million was imposed on Československá obchodní banka, a.s. In one-third of the cases, this bank failed to exchange banknotes damaged in a standard way and persons assessing the authenticity of banknotes and coins did not hold a certificate of completion of a specialised course. The fines totalled CZK 2,250,000.

III.12 CROSS-BORDER PROVISION OF SERVICES

In all financial market sectors in the EU/EEA, financial services or funds may be offered not only on the basis of the right of establishment, but also under the free movement of services, i.e. across borders without the establishment of a branch. To be able to provide services in the Czech Republic in this manner, a foreign financial services provider must follow the procedure in line with the relevant EU regulations, i.e. through the supervisory authority in its Member State, it must notify the Czech supervisory authority, i.e. the CNB, of the cross-border provision of services to the Czech Republic. Domestic financial services providers can also use the single licence to operate under the free movement of services in other EU/EEA countries. The numbers of selected entities notified to the Czech Republic by type of entity are shown in Table B.17.

IV. INTERNATIONAL COOPERATION

As regards financial market regulation and supervision, 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). The CNB as a supervisory authority thus helps to shape the single European financial services market. Besides this, it is actively involved in the activities of international regulatory and supervisory organisations, which gives it a say in the creation of international standards and allows it to contribute to the identification of best practices in this area. 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 2020, the activities of the ESAs were largely affected by the coronavirus pandemic, and they were thus forced to change the priorities of their original work programmes during the year. All three ESAs also worked on areas of joint interest (e.g. the implementation of new provisions of the revised regulations establishing the ESAs, sustainable finance and digitalisation of financial services) and selected topics mainly from the regulatory area. In the case of the EBA, this involved, among other things, the implementation of measures to reduce risks in the banking sector, and for EIOPA the Solvency II directive. ESMA focused, among other things, on launching the implementation of the capital markets union. Last but not least, the ESAs completed preparations for Brexit following the end of the transition period stipulated in the withdrawal agreement.

Members of the ESA Boards of Supervisors appointed by the CNB succeeded in elections to the ESA Management Boards. Executive Director of the CNB's Financial Market Supervision Department Zuzana Silberová was re-elected as one of the seven members of the EIOPA Management Board on 26 November 2020. This will be her second term in office. The term started on 4 December 2020 with a mandate for two and a half years. Executive Director of the CNB's Financial Regulation and International Cooperation Department Vojtěch Belling was appointed as member of the ESMA Management Board on 16 December 2020. He started his 2½ year term as a member of the ESMA Management Board on 1 January 2021.

Cooperation within supervisory colleges

In 2020, the CNB was involved in eight supervisory colleges for European banking groups. In one case, it acted as consolidating supervisory authority. In 2020, the colleges focused mainly on assessing the risk profiles of supervised entities in the context of the pandemic. National supervisory authorities chose a pragmatic approach to the Supervisory Review and Evaluation Process (SREP) and to evaluating group recovery plans, in line with the EBA's recommendations.

In 2020, the CNB was also involved in the activities of 11 supervisory colleges for European insurance groups, which concentrated mainly on group internal models, compliance with the Solvency II requirements (capital requirements with regard to the consequences of the pandemic, among other things) and risk assessments of supervised insurance companies. In addition, the CNB participated in newly created supervisory colleges in the AML/CFT area. This involved six colleges organised for selected international financial groups.

Cooperation on international standards for financial market regulation and supervision

In 2020, the CNB was actively involved in the activities of the International Organization of Securities Commissions (IOSCO). IOSCO's work in 2020 focused mainly on the impacts of the pandemic with regard to financial stability, fund liquidity with an emphasis on money market funds, central counterparties, non-bank intermediation, credit rating procyclicality, etc. Furthermore, IOSCO was active in the area of sustainable finance and rules of conduct of investment firms to retail customers.

The main areas of activity of the International Association of Insurance Supervisors (IAIS) in 2020 involved above all the monitoring of the supervisory, regulatory and financial policy measures related to the

coronavirus pandemic. The CNB's contribution to these monitoring activities pertained, among other things, to conduct of business by insurance companies and intermediaries. The CNB also actively participated in a large-scale monitoring exercise focused on key risks and trends and a possible increase in systemic risk in the global insurance sector.

In 2020, the work of the International Organisation of Pension Supervisors (IOPS) was also focused mainly on monitoring and information-sharing with regard to measures adopted by its members in response to the pandemic. As a result, the IOPS work programme was not resumed until the second half of the year, when work continued on projects aimed at recommended supervisory procedures in the area of cyber resilience of the private pensions sector and in the preparation of pension projections. The CNB was actively involved in these projects. In response to a call from the IOPS, it also provided regular updates on the regulation of pension fund investment and limits on fees charged by pension funds in the Czech Republic.

Coronavirus pandemic

The CNB actively participated in the preparation of many ESA public statements in connection with the coronavirus pandemic. The EBA issued guidelines on setting the conditions of loan repayment moratoria and subsequently extended their validity. In this context, the members of the EBA Board of Supervisors commented on the possibility of extending the validity of the guidelines on moratoria until 30 September 2020 and for the period beyond this date. The EBA Board of Supervisors also dealt with a proposal to introduce common EU-wide criteria and indicators to ensure that banks adopt a prudent approach to dividend payouts.

ESMA public statements aimed to mitigate the impacts of the pandemic on the capital market, e.g. in the form of relief and postponement of duties. As stock markets were bottoming in March, the members of the ESMA Board of Supervisors discussed, among other things, ESMA opinions on individual measures regarding the ban on short selling notified by six supervisory authorities.

Among other things, EIOPA public statements called on insurance companies to refrain from making dividend payouts during the pandemic and buying back shares in order to remunerate shareholders. If insurance companies had reasons for paying dividends, they were expected to justify them to the relevant national supervisory authority. As regards consumer protection, insurers and intermediaries were called on to mitigate the negative impacts of the pandemic on their clients by providing clear information and by treating their clients fairly and equally. CNB representatives also took part in the discussion of an EIOPA opinion on supervisory expectations regarding the application of product governance rules as a result of the pandemic, and in the creation of an EIOPA framework for across-the-board monitoring of insurance companies' liquidity risk at the local and European level.

In a discussion on possible ESA powers to deal with a potential pandemic-related crisis, the members of the Boards of Supervisors agreed to support cooperation between national supervisors and the ESAs in the area of resolution on the basis of the instruments available under the current regulation rather than activating ESA crisis powers or making significant one-off changes to the current regulatory framework.

Brexit

In the context of Brexit, the ESAs and national supervisory authorities including the CNB worked to ensure a smooth transition of the financial market after the end of the transition period. Among other things, ESA statements for supervised entities and their current or prospective clients were published in relation to the transition (e.g. an EBA public statement addressed to consumers in the EU with information on the impacts of Brexit on financial services provision by UK institutions in the EU, and an information document on Brexit for policyholders having a UK life insurance or pension product). On 1 December 2020, the CNB published its own set of statements in order to inform the financial institutions concerned and the public in a transparent manner about the possibility of their further operation in the Czech Republic in case a deal enabling the continuation of the single European passport is not reached between the EU and the UK. In particular, the CNB communicated its expectations regarding the settlement of obligations from contracts concluded before the end of the transition period. In addition, the CNB informed the public that the authorisations of these entities to carry on their business in the Czech Republic would end, explaining how the CNB would continue

to supervise these entities and what impacts the situation would have on previously concluded financial services contracts. There were repeated discussions within ESMA on the application of the duty to trade shares on regulated markets and the application of the trading obligation for derivatives after the transition period.

Implementation of revised regulations establishing the ESAs

The ESAs launched activities relating to their new powers and tasks under the amended establishing regulations (e.g. in the area of mystery shopping and financial education), created new structures (e.g. advisory committees for proportionality and a supervisory committee for central counterparties) and strengthened their roles in supervisory convergence (the creation of individual committees for peer reviews).

Implementation of risk mitigation measures

The implementation of CRD/CRR and BRRD continued into 2020. In this process, the EBA received a large number of authorisations to prepare draft technical standards, especially in the area of market risk and counterparty credit risk, management and remuneration, anti-money laundering rules, setting minimum capital levels and configuring MREL and TLAC loss absorption tools, requirements for the leverage ratio or liquidity and reporting, and new requirements in the prudential framework for investment firms. The EBA sent to the Commission, among other things, an update of the impact study and its recommendations regarding the application of the new Basel III regulatory framework, a contribution to the public consultation on the new Commission Action Plan for a comprehensive Union policy on preventing money laundering and terrorist financing and a reply to the Call for Advice from the Commission to benchmarking national insolvency proceedings and loan enforcement frameworks.

Solvency II

In 2020, EIOPA completed its technical advice to the Commission on the review of Solvency II. The CNB was actively involved in the review through its representatives in EIOPA working groups and at the level of the Board of Supervisors and the Management Board. The main proposed amendments to the directive pertain to recalibrating interest rate risk, introducing alternative methods of risk-free rate extrapolation and changes in the calculation of the risk mark-up. In the area of proportionality, they concern the introduction of a low-risk entity that will be able to apply individual simplifications. Other major proposals are connected with harmonisation in the area of insurance guarantee schemes and macroprudential instruments.

Packaged retail and insurance-based investment products

In 2020 the CNB actively participated in the completion of the joint ESA final report proposing a review of regulatory technical standard No. 2017/653 regarding the PRIIPs (KID) Regulation. The members of the ESA Boards of Supervisors discussed, for example, the proposal to report data on an instrument's historical performance in a separate document, with the KID only containing a reference to this information. In this context, it was also discussed whether such a change would have a negative impact on the decision-making capacity of retail investors, increase costs and the administrative burden of the entities concerned, reduce transparency, and whether the mandate laid down in the PRIIPs Regulation enables the ESAs to require persons subject to the Regulation to publish documents beyond the KID.

Capital markets union

ESMA received new impetus for further activity in building a capital markets union, arising from the Commission's new action plan for this area published in September 2020. Of the total 16 measures in the action plan, 12 are directly relevant to ESMA, and the CNB commented on the proposals discussed at the ESMA level. Through its representatives, the CNB promotes, among other things, the harmonisation of the provision of information to clients across sectors. It agrees with the proposal that the Commission analyse the effect of incentives on the adequacy of investment advice provided, and supports discussions on the transfer of direct supervisory powers in specific areas to ESMA provided that a European solution is indeed more efficient and beneficial by comparison with maintaining powers and related responsibility in those areas at national level.

Sustainable finance

The CNB helped prepare the ESA's response to a consultation paper of the Joint Committee of the ESAs on draft regulatory technical standards regarding the Sustainable Finance Disclosure Regulation (SFDR) and the responses of all three ESAs to the Commission's public consultation on the EU's Renewed Sustainable Finance Strategy. The members of the ESA Boards of Supervisors appointed by the CNB have long been against extending the duty to disclose information on sustainability beyond the current legislation. They have refused proposals for changes to the accounting framework aiming to support financial products regarded as sustainable and have not supported expanding the taxonomy to include all economic activity, as such an approach would be inefficient. They also consider it important that the tools to support sustainable finance appropriately take into account traditional financial risks so as not to distort the actual risk profile.

Digitalisation of financial services

In 2020, the CNB contributed to the responses of all three ESAs to the Commission's public consultation on a new Digital Finance Strategy for the EU and the FinTech Action Plan. In the case of the EBA's reply, the CNB and its representatives advocated that RegTech should be treated in a similar manner as cloud computing, especially taking into account the principle of proportionality and in line with the principle of technological neutrality. It also supported analyses of specific aspects of the individual EBA projects in the SupTech area.

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 2020. 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.

The data are updated as of 30 April 2021.

I. CREDIT INSTITUTIONS

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

Type of entity	As of 31 December 2019	Entries in 2020	Exits in 2020	As of 31 December 2020
Credit institutions, total	58	0	2	56
of which:				
Banks ⁱ⁾	24	0	0	24
Branches of foreign banks from EU/EEA	23	0	1	22
Branches of foreign banks from third countries	2	0	0	2
Credit unions	9	0	1	8
Registered representations of foreign banksⁱⁱ⁾	12	0	2	10

i) Of which five building societies.

ii) 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.

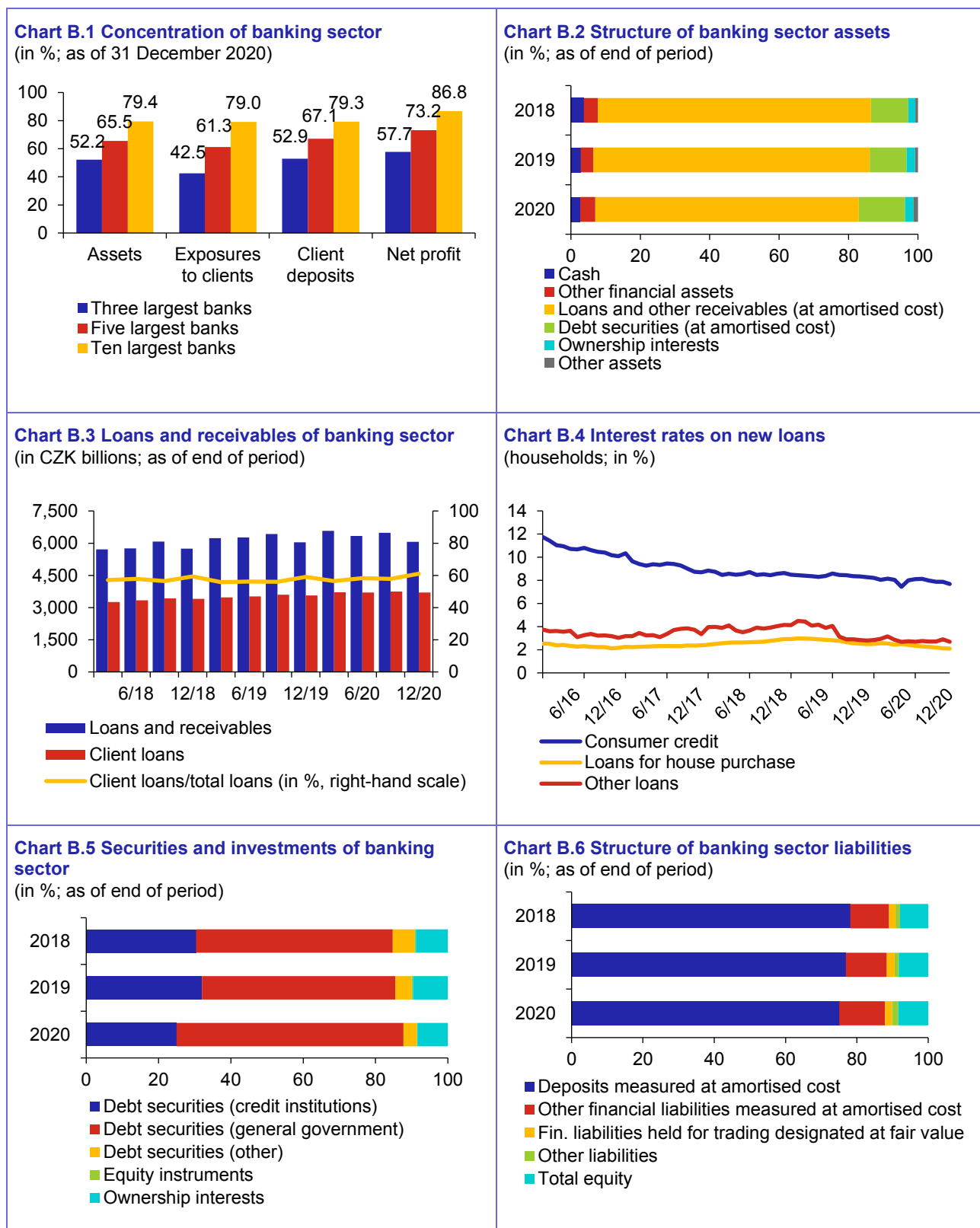
Table B.2 Selected data on the banking sector

	2018	2019	2020
Balance sheet and its structure			
Total assets (in CZK billions)	7,279.2	7,563.0	7,967.8
of which:			
Client loans	3,403.5	3,560.6	3,701.0
Securities and investments, total	1,089.1	1,061.4	1,382.1
Total liabilities	6,702.7	6,941.1	7,297.7
of which:			
Client deposits (measured at amortised cost)	4,573.7	4,870.4	5,309.5
Client deposits/client loans (in %)	134.4	136.8	143.5
Equity	576.5	621.9	670.1
Liquidity			
Quick assets, total (in CZK billions)	2,998.0	3,069.9	3,269.7
Quick assets/assets (in %)	41.2	40.6	41.0
Liquidity coverage ratio (LCR; in %)	188.3	184.9	197.6
Asset quality			
Non-performing client exposures (in CZK billions)	116.7	92.9	104.8
Non-performing client exposures/total client exposures (in %)	3.4	2.6	2.8
Coverage ratio of non-performing client loans and advances (in %)	51.7	55.0	48.9

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

	2018	2019	2020
Profits			
Sector's after-tax profit (in CZK billions)	81.4	91.1	47.2
Financial profit (in CZK billions)	187.2	198.5	177.5
Administrative expenses (in CZK billions)	76.7	77.7	73.6
Cost-to-income ratio (CIR; in %)	44.6	44.6	48.0
Net interest margin (in %)	1.82	1.94	1.60
RoE (in %)	17.46	18.12	8.18
RoA (in %)	1.10	1.16	0.56
Capitalisation			
Regulatory capital, total (in CZK billions)	493.5	539.9	630.9
of which:			
Tier 1	480.2	527.2	611.8
Tier 2	13.3	12.7	19.1
Capital ratio (in %)	19.6	21.3	24.4
Tier 1 capital ratio (in %)	19.1	20.8	23.6
Leverage ratio (in %)	6.7	7.1	7.8

Selected data on the banking sector – charts



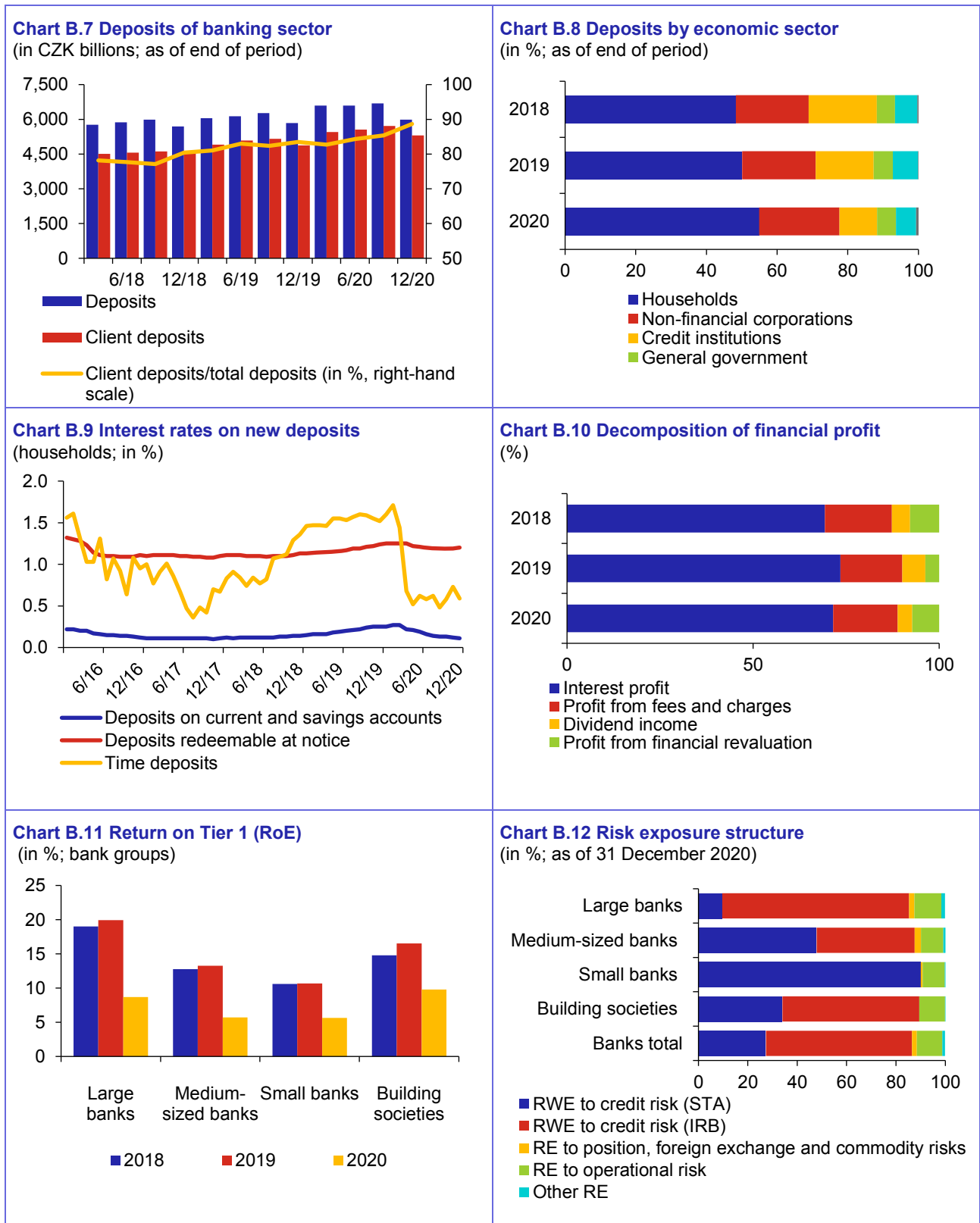


Table B.3 Selected data on the credit unions sector

	2018	2019	2020
Number of credit union members	22,592	12,222	11,991
Total assets (in CZK millions)	20,212.7	10,157.6	9,988.4
of which:			
Loans and receivables	14,668.9	7,282.0	6,427.7
Liabilities (in CZK millions)	16,582.3	8,408.5	8,388.8
of which:			
Deposits (measured at amortised cost)	15,899.8	8,118.7	8,133.3
Equity (in CZK millions)	3,630.4	1,749.2	1,599.6
Total capital ratio (in %)	21.1	29.2	26.7
Non-performing loans/total loans provided (in %)	28.1	24.1	28.9
After-tax profit (in CZK millions)	-33.2	-36.0	-104.0

II. INSURANCE COMPANIES

Table B.4 Numbers of entities in the insurance sector

Type of entity	As of 31 December 2019	Entries in 2020	Exits in 2020	As of 31 December 2020
Insurance companies	47	1	4	44
of which:				
Domestic insurance companies ⁱ⁾	27	0	0	27
Branches of insurance companies from EU/EEA	20	1	4	17
Reinsurance companies	1	0	0	1
Accredited entities	18	5	0	23

i) The number of insurance companies includes the Czech Insurers' Bureau and the Export Guarantee and Insurance Corporation.

Table B.5 Selected data on the insurance sectorⁱ⁾

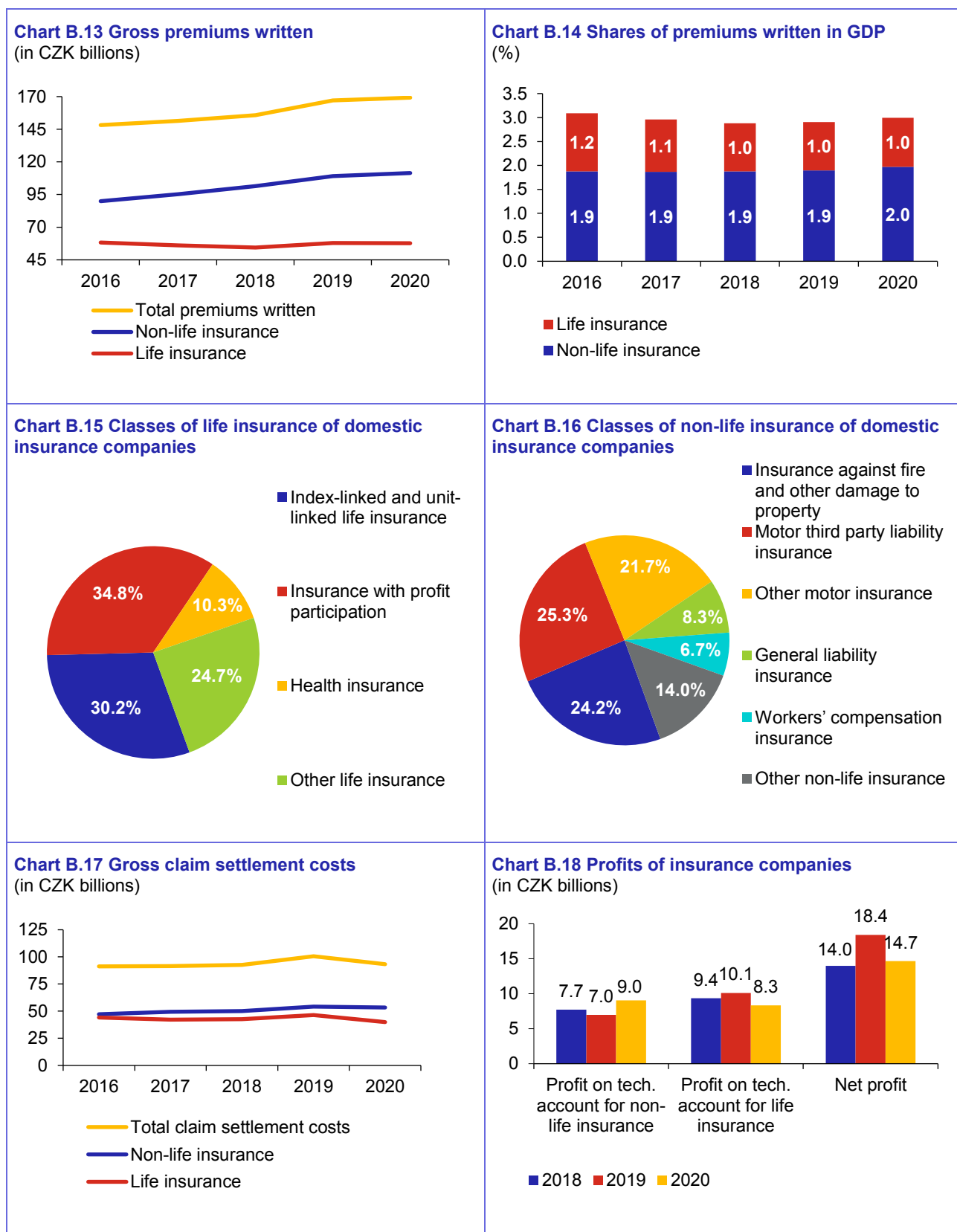
	2018	2019	2020
Balance sheet and its structure			
Total assets (in CZK billions)	491.6	466.2	473.6
Total assets (domestic insurance companies)	444.6	412.0	419.4
of which:			
Investments	324.6	285.8	287.0
Investments of life insurance where investment risk is borne by policy holders	70.6	75.6	77.1
Total liabilities	403.1	389.8	393.9
of which:			
Technical provisions	242.0	236.4	238.4
Provision for life insurance where investment risk is borne by policy holders	88.2	98.3	100.1
Equity	86.3	73.1	75.7
Premiums written			
Gross premiums written (in CZK billions)	155.8	167.1	169.2
of which:			
Life insurance	54.4	58.0	57.7
of which: Insurance premiums ceded to reinsurers	4.5	4.6	4.8
Non-life insurance	101.4	109.2	111.5
of which: Insurance premiums ceded to reinsurers	27.7	28.9	29.5
Claim settlement costs			
Gross claim settlement costs (in CZK billions)	92.6	100.6	93.2
of which:			
Life insurance	42.6	46.4	40.0
Non-life insurance	50.0	54.2	53.3

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)

	2018	2019	2020
Profits			
After-tax profit (in CZK billions)	14.0	18.4	14.7
RoE (in %)	15.1	23.8	18.1
RoA (in %)	2.9	4.2	3.3
Net profit/earned premiums (in %)	11.6	14.5	11.2
Capital adequacy			
Median ratio of eligible own funds to SCR (in %)	207.2	202.5	226.8
Median ratio of eligible own funds to MCR (in %)	404.0	310.4	346.2

Selected data on the insurance sector – charts



III. PENSION MANAGEMENT COMPANIES AND RETIREMENT FUNDS

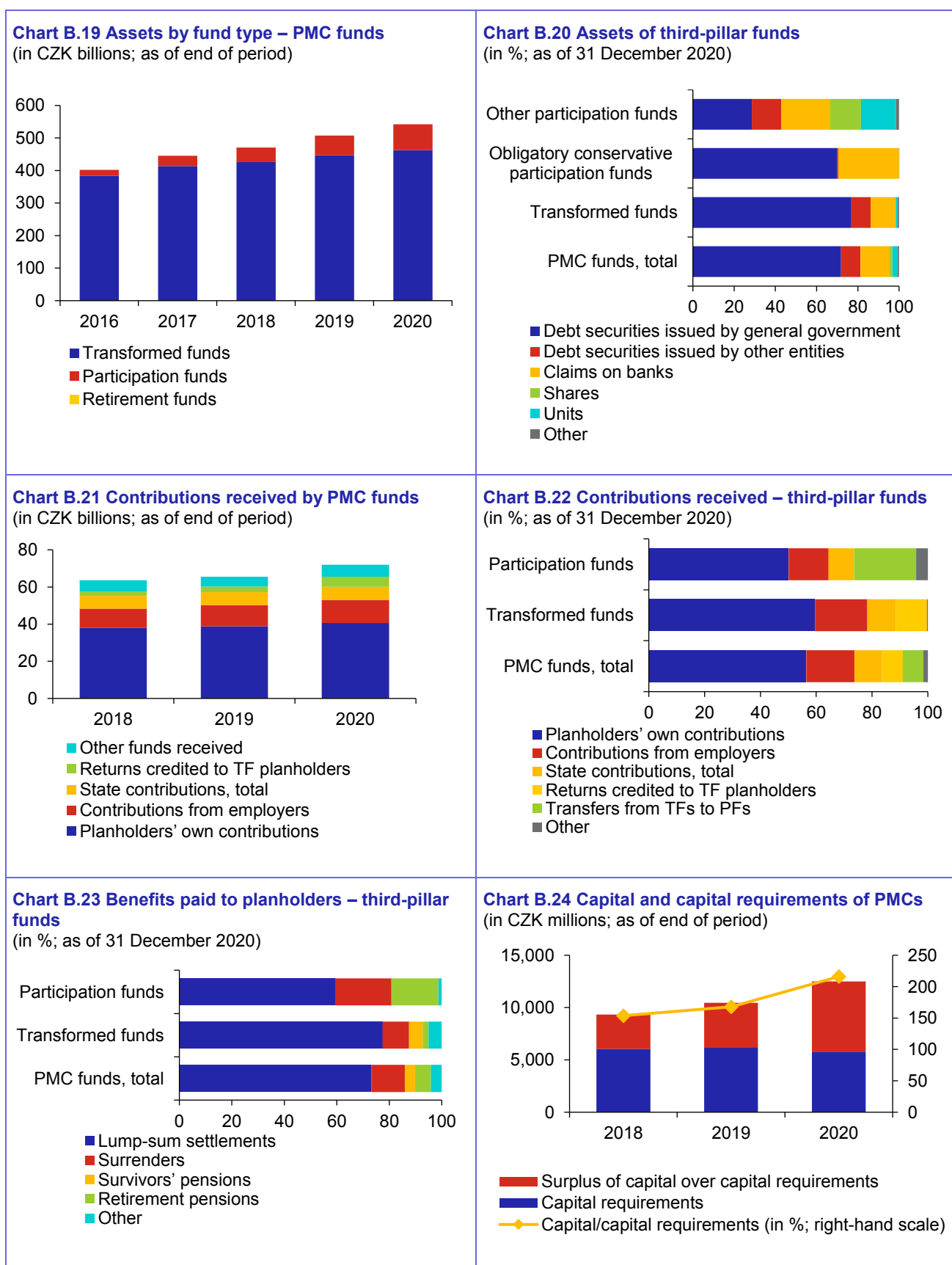
Table B.6 Numbers of entities in the PMCs sector

Type of entity	As of 31 December 2019	Entries in 2020	Exits in 2020	As of 31 December 2020
PMCs	8	1	0	9
Transformed funds	8	0	0	8
Participation funds	30	1	0	31
Accredited entities	12	0	0	12

Table B.7 Selected data on the PMCs sector

	2018	2019	2020
Numbers of third-pillar participants (in thousands)	4,439.1	4,440.1	4,415.1
of which:			
Number of supplementary pension savings planholders	967.0	1,137.4	1,282.9
Number of private pension scheme planholders	3,472.1	3,302.7	3,132.2
Assets of third-pillar funds (in CZK billions)	470.3	507.7	542.1
Contributions received (in CZK billions)	63.6	65.5	72.0
Capital/capital requirements	1.5	1.7	2.2
Net profit (in CZK billions)	1.4	1.9	1.9

Selected data on the PMCs sector – charts



IV. INVESTMENT FIRMS

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

Type of entity	As of 31 December 2019	Entries in 2020	Exits in 2020	As of 31 December 2020
Investment firms	38	1	0	39
of which:				
Banks	16	0	0	16
Non-banks	22	1	0	23
Branches of investment firms	40	8	13	35
of which:				
Banks	14	1	0	15
Non-banks	26	7	13	20
Accredited entities	12	2	0	14

Table B.9 Selected data on the investment firms sector

	2018	2019	2020
Risk exposures (non-bank investment firms; in CZK billions)	12.0	11.9	12.4
T1 capital ratio (in %)	22.2	22.9	21.5
After-tax profit (non-bank investment firms; in CZK millions)	617.3	626.2	785.6

V. MANAGEMENT COMPANIES AND INVESTMENT FUNDS

Table B.10 Numbers of capital market entities

Type of entity	As of 31 December 2019	Entries in 2020	Exits in 2020	As of 31 December 2020
Management companies	33	4	0	37
Main administrators	1	0	0	1
Branches of foreign management companies	2	0	0	2
Investment funds with legal personality	156	42	13	185
of which:				
Autonomous funds	30	0	2	28
Mutual funds	252	13	31	234
Depositories	6	0	0	6
Entities conducting asset administration comparable to asset management pursuant to Article 15 of the AMCIF	151	100	13	238

Table B.11 Selected data on the investment sector

	2018	2019	2020
Assets managed by CIFs (in CZK billions)	320.2	390.9	418.8
of which:			
Bond funds	73.6	121.0	113.5
Mixed funds	140.2	143.1	159.5
Equity funds	61.9	76.3	88.4
Money market funds	6.8	0.0	0.0
Real estate funds	36.8	48.5	56.4
Other funds	1.0	2.0	1.0
Assets managed by FQIs (in CZK billions)	202.5	220.9	256.5
Capital/capital requirements of management companies	5.9	6.1	6.1
Net profit of management companies (in CZK billions)	1.1	1.2	1.2
Net sales/redemptions (in CZK billions)	23.0	45.4	15.3

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)

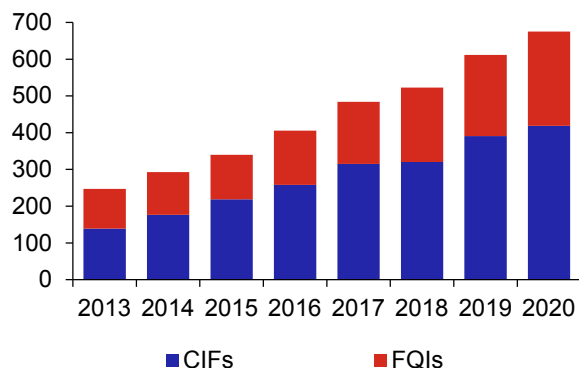


Chart B.26 Assets by fund type – CIFs
(in CZK billions; as of end of period)

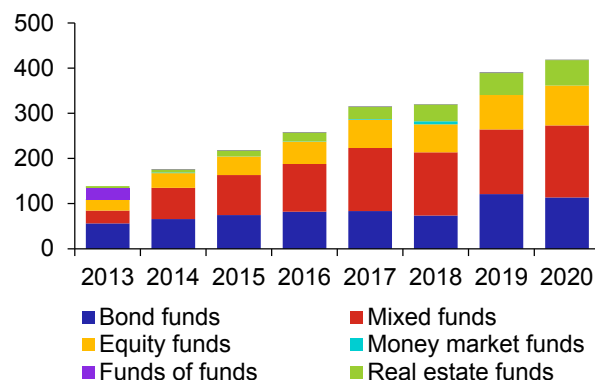


Chart B.27 Asset structure by fund type – CIFs
(in %; as of 31 December 2020)

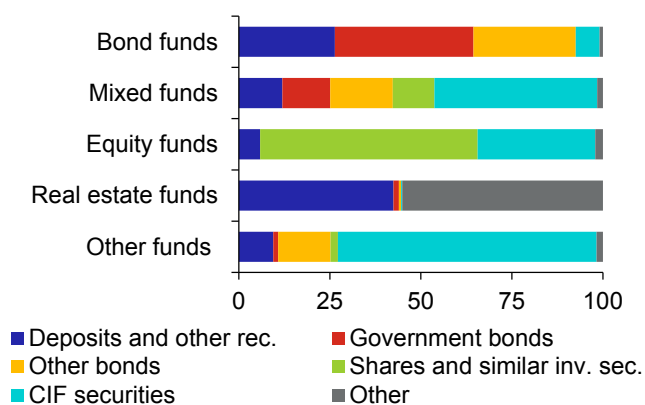
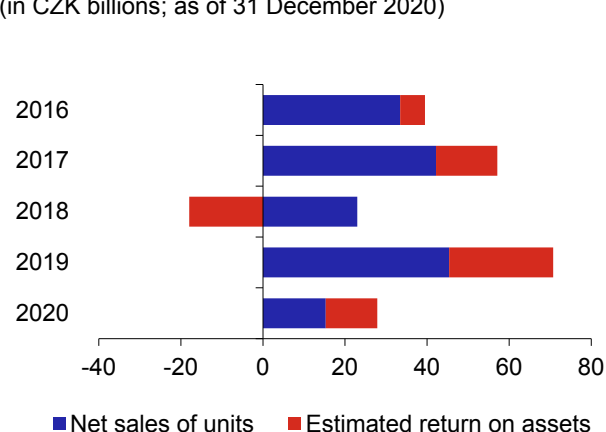


Chart B.28 Decomposition of year-on-year change in assets – CIFs
(in CZK billions; as of 31 December 2020)



VI. NUMBERS OF OTHER FINANCIAL MARKET ENTITIES

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

Type of entity	As of 31 December 2019	Entries in 2020	Exits in 2020	As of 31 December 2020
Payment institutions	24	1	2	23
Branches of payment institutions	13	0	4	9
Electronic money institutions	1	0	0	1
Branches of electronic money institutions	3	3	3	3
Payment account information administrators	2	1	0	3
Small-scale payment service providers	100	3	19	84
Small-scale electronic money issuers	20	0	0	20

Table B.13 Numbers of entities in the retail distributors sector

	As of 31 December 2019	Entries in 2020	Exits in 2020	As of 31 December 2020
Retail distributors of investment services				
Investment intermediaries	177	3	25	155
Tied agents (capital market)	16,513	3,085	7,828	11,770
Distributors of pension products				
Investment intermediaries	91	0	91	0
Non-bank investment firms	1	0	1	0
Bank investment firms	6	0	6	0
Tied agents	10,524	773	11,297	0
Tied agents of PMCs	3	0	3	0
Independent intermediaries (supplementary pension savings)	0	108	3	105
Tied agents (supplementary pension savings) ⁱ⁾	0	13,127	1,270	11,857
Insurance and reinsurance distributors				
Independent intermediaries	1,164	19	330	853
Tied agents	35,049	7,339	11,560	30,828
Supplementary insurance intermediaries	2,268	318	470	2,116
Consumer credit distributors				
Independent consumer credit intermediaries	309	30	34	305
Tied agents (consumer credit)	17,025	3,541	3,514	17,052
Intermediaries of specific-purpose consumer credit	970	73	27	1,016

i) With effect from 1 April 2020, new types of authorisation were created – an independent intermediary and a tied agent pursuant to Act No. 427/2011 Coll. on Supplementary Pension Savings, as amended – which replaced the existing registrations of an investment intermediary or investment firm and extended the registration of tied agents of an investment intermediary or investment firm. The existing authorisations were transformed on the basis of a transitional provision. As of 1 April 2020, the list contained 10,777 tied agents in the area of supplementary pension savings and 99 independent intermediaries.

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

	As of 31 December 2019	Entries in 2020	Exits in 2020	As of 31 December 2020
Non-bank consumer credit providers	86	0	1	85
Accredited entities	19	4	1	22

Table B.15 Numbers of entities in the bureau de change sector

	As of 31 December 2019	Entries in 2020	Exits in 2020	As of 31 December 2020
Bureaux de change	951	26	95	882

Table B.16 Numbers of entities in the sector of handlers of domestic banknotes and coins

Type of entity	As of 31 December 2019	Entries in 2020	Exits in 2020	As of 31 December 2020
Handlers of domestic banknotes and coins	5	0	0	5

Table B.17 Number of financial services providers and funds notified to the Czech Republic under the freedom to provide services

	As of 31 December 2020
Notified credit institutions	403
Notified insurance companies	809
Notified foreign institutions for occupational retirement provision	0
Notified investment services providers	558
Notified UCITS funds	1,435
Notified AIFs ⁱ⁾ excluding EuVECA ⁱⁱ⁾ and EuSEFs ⁱⁱⁱ⁾	231
Notified EuVECA funds	54
Notified EuSEF funds	1
Notified UCITS management companies	50
Notified alternative investment fund managers	39
Notified electronic money institutions	148
Notified payment institutions	232
Notified payment account information administrators	1
Notified insurance intermediaries	5,587
Notified intermediaries of consumer credit for house purchase	9

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

ii) EuVECA = European Venture Capital Funds.

iii) EuSEFs: European Social Entrepreneurship Funds.

VII. SECURITIES ISSUES AND REGULATED MARKETS

Table B.18 Numbers of issuers and market infrastructure entities

Type of entity	As of 31 December 2019	Entries in 2020	Exits in 2020	As of 31 December 2020
Issuers of securities admitted to trading on a European regulated market ⁱ⁾	122	5	20	107
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.19 Selected data on the securities market

	2018	2019	2020
Number of share issues (PSE)	53	54	55
Total share trading volume (PSE; in CZK billions)	142.6	108.8	125.3
Market capitalisation of shares (PSE; in CZK billions)	21,262.0	22,054.2	13,502.7
Total share trading volume (RM-S; in CZK billions)	2.8	2.2	4.5

Table B.20 Overview of issuers of securities admitted to trading on a regulated market in the Czech Republic

	2018	2019	2020
Issuers of securities admitted to trading on a regulated market in the Czech Republic	117	122	107
of which:			
Issuers whose home Member State is the Czech Republic	104	112	98
of which:			
Issuers having their registered address in the Czech Republic	96	105	94
Issuers having their registered address in another EU Member State	6	5	3
Issuers having their registered address outside the EU	2	2	1
Issuers exempt pursuant to Article 119c of the Capital Market Undertakings Act	32	36	27
Issuers fully subject to CNB supervision	72	76	71
of which:			
Issuers having their registered address in the Czech Republic	67	72	68
Issuers having their registered address in another EU Member State	3	2	2
Issuers having their registered address outside the EU	2	2	1
Share issuers	46	46	43

VIII. AGGREGATE INFORMATION ON SUPERVISION

Table B.21 Numbers of examinations started by sector

	2018	2019	2020
Banks	20	21	22
Credit unions	4	1	5
Insurance companies	9	9	6
PMCs and retirement funds	0	9	0
Investment firms – non-banks	2	3	1
Branches of foreign investment firms	1	0	4
Management companies and investment funds	4	4	5
Bureaux de change	28	16	5
Payment service providers	0	12	3
Electronic money issuers	0	1	0
Consumer credit providers	4	16	11
Accredited entities	14	0	6
Retail distributors	28	33	24
Handlers of domestic banknotes and coins	1	0	1

Table B.22 Overview of offences

Breakdown according to Article 45d(2) of the Act on the CNB	2020
Number of petitions received	168
Number of proceedings opened	110
Number of cases deferred	58
Number of proceedings discontinued	6
Number of final and conclusive decisions	110
Total fines imposed	CZK 61,575,000
Number of decisions waiving the imposition of a penalty	1
Number of appeals submitted ³³	16

³³ Of the total number of 16 appeals submitted, the first-instance decision was confirmed by the Bank Board (the second instance) in 13 cases. In two cases, part of the decision statement was modified and the rest of the decision was confirmed, and in one case, the appeal was refused due to late submission.

Table B.23 Penalty administrative proceedings

Area of imposition of penalty	Number of penalty administrative proceedings continuing from 2019	Number of penalty administrative proceedings opened in 2020	Number of penalty administrative proceedings closed in 2020	Total fines imposed (in CZK thousands) ³⁴
Credit institutions	6	5	6	20,000
Insurance	5	9	12	1,140
Capital market	19	41	44	17,610
Violation of the Act on Bureau de Change Activity	5	16	21	12,380
Consumer protection	1	1	1	4,700
Payment system	27	38	42	835
Circulation of banknotes and coins	1	6	5	2,250
Act on the CNB	0	1	0	0
Consumer credit	6	18	11	6,740
Anti-money laundering and combating the financing of terrorism	0	9	7	920
Total	70	144	149	66,575

Table B.24 Financial market entities in liquidation³⁵

Type of entity	As of 31 December 2019	Entries in 2020	Exits in 2020	As of 31 December 2020
Banks	4	0	0	4
Credit unions	3	1	0	4
Insurance and reinsurance companies	0	0	0	0
Management companies	3	0	0	3
Investment funds	9	0	0	9
Mutual funds	5	9	6	8
PMCs	0	0	0	0
Investment firms	1	1	1	1
Total	25	11	7	29

Table B.25 Applications for information

Type of application	2017	2018	2019	2020
Applications from foreign regulators	35	46	48	47
Applications under Act No. 106/1999 Coll., on Freedom of Information	51	79	71	49

³⁴ While Table B.22 shows an overview of offences under Act No. 250/2016 Coll., on Liability for Administrative Offences and Proceedings Thereon, Table B.23 shows fines imposed pursuant to all penalty decisions, including those opened before this Act took effect.

³⁵ A total of seven entities ceased to be subject to CNB supervision as a result of the completion of liquidation: one investment firm (HighSky Brokers, a.s. v likvidaci) and six mutual funds in liquidation. In 2020, one credit union (Družstevní záložna PSD v likvidaci) went into liquidation. In addition, nine mutual funds went into liquidation, as did one investment firm which completed its liquidation in the same year.

Table B.26 Overview of submissions from the public

	2018	2019	2020
Credit institutions	696	872	1071
of which:			
Conduct of business and consumer protection	550	667	714
Consumer credit provision	146	205	357
Insurance	510	570	521
PMCs and retirement funds	29	37	30
Non-bank investment firms	77	72	121
Management companies and investment funds ⁱ⁾	21	21	14
Money-changing activities	338	174	41
Payment service providers and electronic money issuers	66	51	36
Non-bank consumer credit providers	200	195	172
Retail distributors	301	215	229
of which intermediation of:			
Insurance products	203	142	149
Investment products	49	24	45
Consumer credit	49	49	35

i) Including similar foreign entities.

Table B.27 Central Credit Register

	As of As of 31 December 2017	As of 31 December 2018	As of 31 December 2019	As of 31 December 2020
Number of registered borrowers	633,018	632,726	641,579	642,759
of which:				
Natural persons (entrepreneurs)	326,683	322,364	322,192	325,040
Legal entities	306,335	310,362	319,387	317,719
Total volume of loans outstanding (in CZK billions)	1,722	1,830	1,869	1,897
Number of CCR application users	2,258	2,246	2,234	2,233
Ad hoc enquiries about credit commitments (thousands per year)	308	361	367	364
Number of enquiries about client credit commitments in monthly reports (thousands per year)	4,372	4,506	5,945	3,416
Number of extracts made for clients per year	569	488	460	442

IX. THE CNB'S REGULATORY ACTIVITIES IN 2020

CNB decrees and provisions

- Decree No. 199/2020 Coll., on applications pursuant to the Act on Supplementary Pension Savings.
- Decree No. 200/2020 Coll., amending Decree No. 233/2009 Coll., on applications, approval of persons and the manner of proving professional qualifications, trustworthiness and experience of persons, as amended.
- Decree No. 201/2020 Coll., amending Decree No. 247/2013 Coll., on applications pursuant to the Act on Management Companies and Investment Funds, as amended by Decree No. 344/2014 Coll.
- Decree No. 267/2020 Coll., on reporting by a manager and an administrator of an investment fund or foreign fund to the Czech National Bank.
- Decree No. 355/2020 Coll., on applications and certain information pursuant to the Act on Banks and the Act on Credit Unions.
- Decree No. 404/2020 Coll., amending Decree No. 425/2012 Coll., on the submitting of statements to the Czech National Bank by pension management companies, as amended by Decree No. 476/2017 Coll.
- Decree No. 518/2020 Coll., on the submitting of information by financial services intermediaries to the Czech National Bank.

Selected official information documents and other communications

- Official Information of 20 February 2020 regarding the conduct of business activities by banks, credit unions and investment firms – publication of information, amending Official Information No. 9/2018 CNB Bull., as amended by Official Information No. 12/2018 CNB Bull.
- Official Information of 14 April 2020 regarding the method for calculating risk weights for the purposes of setting contributions to the Deposit Insurance Fund.
- Official Information of 8 July 2020 – Recommendation on the management of risks associated with the provision of retail loans secured by residential property.
- Official Information of 3 August 2020 on the performance of the activities of banks – disclosure of exposures subject to measures applied in response to the COVID-19 crisis, including the Annex – Disclosure templates under EBA/GL/2020/07.
- Official Information of 5 August 2020 regarding the interpretation of the terms trustworthiness and competence.
- Official Information of 21 December 2020 regarding the conduct of business activities by banks, credit unions and investment firms – publication of information, amending Official Information No. 9/2018 CNB Bull., as amended by Official Information No. 12/2018 CNB Bull. and No. 5/2020 CNB Bull.
- CNB information of 13 January 2020 on reporting compliance with migration plans as regards strong client authentication for e-commerce card payments.
- CNB information of 8 April 2020 on information disclosure pursuant to Regulation (EU) No 575/2013 and Decree No. 163/2014 Coll. in the light of COVID-19.
- CNB information of 11 May 2020 on EBA Guidelines regarding legislative and non-legislative moratoria on loan repayments applied in the light of the COVID-19 crisis.
- CNB information of 17 June 2020 on EBA Guidelines amending Recommendation EBA/REC/2015/01 on the equivalence of confidentiality regimes.

- CNB information of 20 July 2020 on EBA Guidelines on reporting and disclosure of exposures subject to measures applied in response to the COVID-19 crisis.
- CNB information of 4 August 2020 on EBA Guidelines on the determination of the weighted average maturity of the tranche in accordance with Article 257(1)(a) of Regulation (EU) No 575/2013.
- CNB information of 11 August 2020 on EBA guidelines on harmonised definitions and templates for funding plans of credit institutions under Recommendation ESRB/2012/2 of the European Systemic Risk Board of 20 December 2012.
- CNB information of 11 August 2020 on EBA Guidelines on credit risk mitigation for institutions applying the IRB approach with own estimates of LGD.
- CNB information of 25 August 2020 on EBA Guidelines on loan origination and monitoring.
- CNB information of 7 October 2020 on EBA Guidelines amending Guidelines EBA/GL/2018/01 on uniform disclosures under Article 473a of Regulation (EU) No 575/2013 (CRR) on the transitional period for mitigating the impact of the introduction of IFRS 9 on own funds to ensure compliance with the CRR 'quick fix' in response to the COVID-19 pandemic.
- CNB information of 7 October 2020 on EBA Guidelines on supervisory reporting and disclosure requirements in compliance with the CRR 'quick fix' in response to the COVID-19 pandemic.
- CNB information of 19 October 2020 on EBA Guidelines on the treatment of structural FX under Article 352(2)(a) of Regulation (EU) No 575/2013 (CRR).

Selected explanatory opinions

- Answers to frequently asked questions regarding the interpretation of the Act on Some Measures in the Area of Loan Repayment in Connection with the COVID-19 Pandemic.
- Answers to frequently asked questions – Examples of the impacts of the use of the loan repayment moratorium in connection with the COVID-19 pandemic.

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Abbreviations

AIF	alternative investment fund
AMCIF	Act on Management Companies and Investment Funds
AML/CFT	anti-money laundering/combating the financing of terrorism
BRRD	Bank Recovery and Resolution Directive
CBD	Covered Bonds Directive
CCR	Central Credit Register
CER	Critical Entities Resilience
CIF	collective investment fund
CIR	cost-to-income ratio
CRD V	Capital Requirements Directive V
CRR II	Capital Requirements Regulation II
CSDP	Central Securities Depository Prague, a.s.
CSDR	Central Securities Depositories Regulation
CVV/CVC	Card Verification Value/Code
DORA	Digital Operational Resilience Act
EBA	European Banking Authority
ECI	European critical infrastructure
EEA	European Economic Area
EIOPA	European Insurance and Occupational Pensions Authority
EMIR	European Market Infrastructure Regulation
ESAs	European Supervisory Authorities
ESEF	European Single Electronic Format
ESFS	European System of Financial Supervision
ESG	environmental, social, and governance
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
IFD	Investment Firms Directive
IFR	Investment Firms Regulation

IFRS	International Financial Reporting Standards
IOPS	International Organisation of Pension Supervisors
IOSCO	International Organization of Securities Commissions
IRB	internal ratings based approach
KID	key information document
LCR	liquidity coverage ratio
LGD	loss given default
MCR	minimum capital requirement
MF	Ministry of Finance
MiFID	Markets in Financial Instruments Directive
MiFIR	Markets in Financial Instruments Regulation
MONEYVAL	The Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism
MREL	minimum requirement for own funds and eligible liabilities
NBS	National Bank of Slovakia
NIS	Network and Information Systems
ORSA	Own Risk and Solvency Assessment
OTC	over-the-counter
PIN	Personal Identification Number
PMC	pension management company
PRIBOR	Prague InterBank Offered Rate
PRIIP	packaged retail and insurance-based investment products
PSD II	Payment Services Directive II
PSE	Prague Stock Exchange
RE	risk exposure
RegTech	Regulatory Technology
RM-S	RM-SYSTÉM, česká burza cenných papírů a.s.
RWE	risk-weighted exposure
SCR	solvency capital requirement
SEPA	Single Euro Payments Area
SFDR	Sustainable Finance Disclosure Regulation
SREP	supervisory review and evaluation process
SRP	supervisory review process
STA	Standardised approach
SupTech	Supervisory Technology
TLAC	Total loss-absorbing capital
UCITS	undertaking for collective investment in transferable securities

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