



principles laid down in the NBS investment strategy approved in 2008 and updated in 2014 and 2016. In the case of the euro-, US dollar- and GBP-denominated portfolios, interest rate risk is managed in a standard way through interest rate swaps and futures contracts. After taking into account hedging costs and other

costs and revenues on the liability side, the returns on the euro-, US dollar- and GBP-denominated portfolios in 2017 were 0.44%, 0.66%, and 1.24%, respectively. In late 2017 NBS established a strategic portfolio of Chinese government bonds unhedged against interest rate risk and exchange rate risk.

## 2 FINANCIAL STABILITY AND FINANCIAL MARKET SUPERVISION<sup>5</sup>

### 2.1 FINANCIAL STABILITY

In 2017 Národná banka Slovenska (NBS) issued six macroprudential decisions concerning cyclical and structural systemic risk in the context of financial stability. Four of these decisions concerned the setting of the countercyclical capital buffer (CCyB) rate. They included NBS Decision No 8/2017, which was significant from a financial stability perspective in that it raised the CCyB rate to 1.25% with effect from 1 August 2018 (this was the second time that the rate had been raised). The reason for the hike was the continuing strong growth in credit to the domestic non-financial sector, which had reached an all-time high. That growth was spurred mainly by the upward impact of low interest rates on demand for loans among households and non-financial corporations (NFC). Signs of the financial cycle's expansionary phase began to appear in other areas, too. Property market pressures built up, private sector indebtedness increased and default rates fell for most types of loan.

Another two decisions concerned banks in Slovakia identified as 'other systemically important institutions' (O-SIIs). The list of O-SIIs is reassessed on an annual basis, and the 2017 assessment did not result in any changes to its composition. There were, however, changes to the settings of the O-SIIs' additional capital buffer requirements in the form of O-SII buffers and systemic risk buffers.

In response to rising credit demand, NBS has adopted two decrees that are significant in terms of macroprudential policy. Decree No 10/2016,

which entered into force at the start of 2017, enabled the recalibration of certain parameters and established a legal framework for supervising compliance with prudential rules for the provision of housing loans. Decree 10/2017, which entered into force at the start of 2018, laid down conditions for the provision of consumer loans. Its purpose is to reduce risks to consumers (in particular the risk associated with rising household debt) and risks to firms providing consumer loans, as well as to stem the build-up of financial market imbalances. Through these decrees, the principles contained in a previous NBS Recommendation on risks related to market developments in retail lending became binding on all providers of the respective types of loan.

### 2.2 FINANCIAL MARKET SUPERVISION

#### THE BANKING SECTOR

As at 31 December 2017 a total of 12 banks and 14 foreign bank branches were operating in Slovakia. Under the Single Supervision Mechanism (SSM), consisting of the ECB and the national competent authorities of participating Member States, all banks and foreign bank branches operating in Slovakia are categorised as either:

- significant, supervised directly by the European Central Bank in close cooperation with Národná banka Slovenska (they comprise: Tatra banka, a.s.; Všeobecná úverová banka, a.s.; Slovenská sporiteľňa, a.s.; Československá obchodná banka, a.s. and ČSOB stavebná sporiteľňa, a.s., both part of the KBC Group; UniCredit Bank Czech Republic and Slovakia, a.s., pobočka zahraničnej banky; Komerční

<sup>5</sup> For further details, see the Report on the Activities of the Financial Market Supervision Unit of Národná banka Slovenska in 2017, which is published (in Slovak only) on the NBS website at <http://www.nbs.sk/sk/publikacie/publikacie-dohladu/sprava-o-cinnosti-udf>



- banka, a. s., pobočka zahraničnej banky; and mBank S.A., pobočka zahraničnej banky);
- less significant, supervised directly by NBS (they comprise the other banks and foreign bank branches operating in Slovakia).

In proceedings concerning credit institutions that operate in Member States participating in the Single Supervisory Mechanism (SSM), the ECB has exclusive power to issue and withdraw authorisations and to assess notifications of the acquisition or transfer of qualifying holdings in credit institutions except in cases of resolution and the situations referred to Article 15 of Regulation (EU) No 1024/2013. The ECB and NBS cooperate closely in proceedings concerning credit institutions established in Slovakia. With respect to less significant banks, however, the ECB is not involved in the fitness and propriety assessments of persons nominated to be a member of a bank's management or supervisory board, or to be a senior employee or chief internal control/audit officer at a bank.

In 2017 the ECB exercised decision-making power in a total of 54 proceedings concerning credit institutions established in Slovakia. The majority of these proceedings were fit and proper assessments of persons nominated to be a member of a significant bank's management board or supervisory board.

In 2017 Národná banka Slovenska exercised decision-making power in 41 proceedings concerning credit institutions established in Slovakia. Mostly these were decisions to issue prior approval for the election of a member of a bank's management board or supervisory board, or for the appointment of a senior employee, authorised representative or chief internal control/audit officer at a bank. Among the most important taken by NBS in decision in 2017 were the issuance of prior approval for the acquisition of Sberbank Slovensko, a.s. by Prima banka Slovensko, a.s. which took place with effect from 1 August 2017.

In 2017 a total of nine thematic on-site inspections were conducted in banks and foreign bank branches in Slovakia. As part of this activity, NBS assessed one application for a change in use or change of internal risk measurement models in order to calculate credit risk capital

requirements. The on-site inspections focused mainly on the quality of the institution's risk management system, paying particular attention to credit risk, market risk, operational risk, interest rate risk in the banking book, the corporate governance system, the liquidity risk management system, and the level of protection against money laundering and terrorist financing.

Off-site supervision of banks and foreign bank branches includes not only regularly processing statements and reports, monitoring prudential business indicators, conducting analyses, and communicating with the supervised entities and their home supervisors, but also includes joint activities under the ECB's direct and indirect supervision and work in supervisory colleges for individual banks.

As regards banks in Slovakia that fall under the ECB's direct supervision, the ECB conducts the supervision through joint supervisory teams (JSTs) that include NBS supervisory staff. An annual assessment for each bank is produced by its respective JST in accordance with SSM processes. Under off-site supervision, assessments of ex ante and ex post notifications are reviewed in accordance with Commission Delegated Regulation (EU) No 529/2014. Validation reports on banks' internal models and internal audits are then reviewed, and banks are evaluated for compliance with requirements and recommendations arising from decisions on the use of internal models.

#### PAYMENT SERVICES AND ELECTRONIC MONEY ISSUANCE

As at 31 December 2017 there were ten payment institutions operating in the Slovak financial market, six of which were authorised to provide payment services without limitation and four of which were authorised to provide payment services in a limited scope.

One electronic money institution was operating in the Slovak financial market in 2017.

A total of 26 decisions concerning payment services were issued during 2017. These were mostly decisions to issue prior approval for the election or appointment of a member of statutory body or supervisory board, or an internal control officer.



As at the end of 2017 a total of 39 foreign payment institutions were registered with NBS on the basis of a notification of their intention to provide payments services, and 34 foreign electronic money institutions were registered on the basis a notification of their intention to issue, offer and exchange electronic money or to provide payment services in Slovakia without establishing a branch.

Three comprehensive on-site inspections of payment institutions were completed in 2017 after commencing in 2016. A further two were still ongoing at the end of the year, and their main purpose was to review and assess the payment services system, compliance with business conditions, the internal control/audit system, selected risks and the risk management system, the system for preventing money laundering and terrorist financing and the fulfilment of obligations in this area, and compliance with legislation of general application.

#### FOREIGN EXCHANGE ACTIVITY

As at 31 December 2017 there were 1,158 entities in Slovakia holding a foreign exchange authorisation. In 2017 NBS issued 13 decisions in this area, 11 of which were decisions to issue a foreign exchange authorisation. Two sanction proceedings that resulted in the imposition of a fine were completed in 2017.

In 2017 a total of 11 on-site inspections were conducted in regard to the provision of foreign exchange services (i.e. the purchase of foreign cash currency in exchange for euro cash, and vice versa), primarily in order to check compliance with the Foreign Exchange Act. Another two on-site inspections concerned the reporting obligation under the Foreign Exchange Act.

#### NON-BANK LENDERS

As at 31 December 2017 there were 35 non-bank lenders in the Slovak financial market, 33 of which were authorised to provide consumer loans without limitation, one was authorised to provide consumer loans in a limited scope, and one was another lender authorised to provide credits and loans other than consumer loans.

In 2017 NBS issued 50 decisions concerning non-bank lenders, including two authorisations to provide consumer loans and other consumer

credit, four prior approvals for the return of an authorisation, one prior approval for the termination of a lender's business on grounds other than the withdrawal of the lender's authorisation, and 31 prior approvals for the election or appointment of a member of a lender's statutory body or supervisory board or a lender's internal control officer.

In 2017 NBS conducted three comprehensive on-site inspections of non-bank lenders. The inspections had the following main objectives: to review the lenders' compliance with the Consumer Credit Act in the provision of consumer loans and compliance with the terms under which the lender is authorised to carry on business; to verify information provided during the authorisation proceedings for the provision of consumer loans; and to assess the lenders' internal control/audit systems, selected risks and risk management system, and system for preventing money laundering and terrorist financing.

#### THE INSURANCE SECTOR

As at 31 December 2017 the Slovak financial market included 15 insurance undertakings established in Slovakia and operating under the EU's Solvency II regime, 22 branches of insurance or reinsurance undertakings established in another EU Member State, and one insurance undertaking in the process of being wound down after being placed in receivership with effect from 15 June 2017. Regarding insurance activities performed by insurance and reinsurance undertakings established in another EU Member State, NBS issued 30 notifications in 2017, and regarding insurance activities performed by insurance and reinsurance undertakings established in Slovakia, it issued eight.

In 2017 the NBS Financial Market Supervision (FMS) Unit issued four decisions, mostly prior approvals for various matters under the Insurance Act. It also conducted two sanction proceedings related to the insurance sector.

In one particularly notable case of sanction proceedings, the FMS Unit decided on 14 June 2017 to place the insurance undertaking Rapid Life životná poisťovňa a.s. in receivership. This decision was taken on the grounds that the undertaking had seriously and repeatedly infringed the rights of its customers to due and timely pay-



ment of benefits under insurance contracts and that it had failed to act in good faith and take due care in regard to its obligation to meet customers' claims arising under insurance contracts. The purpose of the receivership was to ascertain the actual state of all aspects of the undertaking's activities and management, to protect its customers against the infringement of their rights and against the escalation of any damage already caused to them, and to ensure the settlement of the customers' claims against the undertaking. In respect of the rights and legally protected interests of Rapid Life's customers, the operations of Rapid Life in terms of their scope, duration, nature and repercussions constituted a social danger of such gravity that the FMS Unit deemed the placing of the undertaking in receivership to be warranted and necessary.

On 2 August 2017 the receiver in this case, JUDr. Irena Sopková, filed a criminal complaint against Rapid Life over suspected crimes committed by the undertaking during the course of its activities.

The receivership terminated when Rapid life was declared bankrupt on 29 January 2018.

Národná banka Slovenska has also filed a criminal complaint against Rapid life.

Since the introduction of the new regulatory regime (Solvency II) in the insurance sector in 2016, NBS's prudential supervision activities in the sector have focused on intensifying its contracts with insurance undertakings subject to supervision and on providing them with consultancy services and guidance. In 2017 NBS held multi-day working meetings with senior executives and staff members performing key functions at all 15 insurance undertakings operating in Slovakia under the Solvency II regime. Off-site supervision of the sector included checking insurance undertakings' compliance with organisational structure requirements under relevant legislation. In addition, meetings were held with representatives of both insurance undertakings and their external auditors in order to discuss the operation of insurance undertakings under the Solvency II regime and the principal risks in the insurance sector.

NBS conducted one comprehensive on-site inspection and two thematic on-site inspections

in the insurance sector in 2017. One of the thematic inspections focused on an insurer's preparedness for using a partial internal model to calculate the Solvency Capital Requirement in accordance with the Solvency II Directive. The other examined an insurer's financial situation.

#### THE PENSION FUND SECTOR

In 2017 the Slovak financial market included six pension fund management companies (PF-CMs) managing a total of 19 pension funds (constituting the old-age pension scheme, the second pillar of the pension system), and four supplementary pension management companies (SPMCs) managing a total of 15 supplementary pension funds (the third pillar). Depository activities under the Old-Age Pension Scheme Act and the Supplementary Pension Scheme Act were performed by five banking institutions.

In 2017 the FMS Unit issued 11 decisions concerning the old-age pension scheme and 17 decisions concerning the supplementary pension scheme. It also initiated sanction proceedings against one SPMC.

Off-site supervision of the sector was largely concerned with checking the compliance of PFCMs, SPMCs and depositories with their information obligations towards NBS and with evaluating these data. The focus was on independent verification of whether the financial assets held in pension fund portfolios were correctly priced and on the consistency between financial assets acquired for particular pension fund portfolios and the provisions of the Old-Age Pension Scheme Act and Supplementary Pension Scheme Act.

As regards the old-age pension scheme (second pillar), a total of six thematic on-site inspections of PFCMs were conducted in 2017. These inspections focused on the PFCMs' procedural compliance in establishing and managing savers' pension accounts in which the number of pension funds' pension points are recorded and the PFCMs' compliance with their obligation to send savers' statements of their personal pension accounts. Also in 2017, one comprehensive on-site inspection was initiated at a PFCM, focusing on the company's activities and on whether it was managing pension funds in accordance with the



Old-Age Pension Scheme Act and other legislation of general application.

As for the supplementary pension scheme, the comprehensive on-site inspection of one SPMC that began in 2016 was completed in 2017.

#### FINANCIAL INTERMEDIATION AND FINANCIAL ADVISORY SERVICES

As at 31 December 2017 there were 38,754 entities registered in the Register of Financial Agents and Advisers (REGFAP). In 2017 a total of 25 new entities from different sectors were entered in the REGFAP, with the FMS Unit granting authorisations to act as independent financial agent to 24 legal entities and an authorisation to act as a financial adviser to one legal entity. During the year, 55 independent financial agents were de-registered.

Also newly entered in the REGFAP in 2017 were 302 financial intermediaries from other Member States operating in the insurance and re-insurance sector and four intermediaries from other Member States engaged in the provision of housing loans; these intermediaries were authorised to conduct business in Slovakia under the freedom to provide services without being established in the country. One other intermediary established in Slovakia and operating in the insurance and reinsurance sector was entered in the REGFAP in 2017.

In 2017 NBS accepted and processed 6,501 electronic applications made by financial agents and financial institutions to register subordinate agents in, deregister them from, or change their entry in the REGFAP.

In 2017 the FMS Unit initiated 48 proceedings concerning financial intermediation and financial advisory services, while 37 first-instance decisions issued by the FMS Unit in this area came into effect.

Off-site supervision of this sector in 2017 focused on checking the compliance of supervised entities with their requirement to report to NBS periodically via an internet application, on checking all financial agents for whether they submitted a quarterly report for the period from 1 January 2017 to 31 March 2017, and, in respect of the termination of contracts

under which a subordinate financial agent is established, on checking whether the application to deregister the agent from the REGFAP was submitted within thirty days after the expiry of the contract. As part of its off-site supervision, NBS examined whether the complaints filed by natural persons and legal entities against financial market participants providing financial intermediation and financial advisory services were justified.

Comprehensive on-site inspections were initiated at four financial agents of legal entities in 2017, and two of these inspections were not completed by the end of the year.

#### THE SECURITIES MARKET

As at the end of 2017 there were 20 investment firms operating in the Slovak financial market. In four cases the NBS had not authorised the firm to conduct business in Slovakia on grounds that it had not demonstrated to NBS the technical, organisational and staffing preparedness required for the performance of the authorised activities.

The FMS Unit issued 26 decisions concerning investment firms in 2017, most of them prior approvals, such as for the election of management board members and changes to the registered offices of investment firms. A total of 134 notifications were issued about the intention of foreign investment firms to provide investment services in Slovakia.

The FMS Unit approved 32 securities prospectuses, one securities note, and ten securities prospectus supplements.

The FMS Unit received 94 notifications from other EU countries' supervisory authorities concerning the approval of securities prospectuses or prospectus supplements and sent 12 such notifications to another EU country's supervisory authority.

The FMS Unit issued four decisions concerning the approval of mandatory takeover bids made to issuers of shares traded on the Bratislava Stock Exchange (BSSE), a regulated market. It also issued four decisions concerning the granting of prior approval for the election of a member of the BSSE management board and two decisions



concerning the approval of changes to the stock exchange's regulations.

In regard to the securities market, the FMS Unit conducted five sanction proceedings and issued two decisions to impose sanctions (fines), which did not enter into force in 2017.

Off-site supervision in the securities market was exercised over 16 domestic investment firms and eight investment firms operating in Slovakia through branches in accordance with the EU's second Markets in Financial Instruments Directive (MiFID II) (four of which were operating through tied agents). Off-site supervision was also exercised over banks and foreign bank branches authorised to provide investment services. The main priorities of this off-site supervision were to monitor supervised entities' compliance with financial rules and to assess their financial situation and risk profiles.

Off-site supervision also covered the BSSE and the central securities depositories Centrálny depozitár cenných papierov SR (CDCP) and Národný centrálny depozitár cenných papierov (NCDP). Issuers of securities admitted to trading on the BSSE were also subject to off-site supervision in order to check their compliance with information obligations vis-à-vis Národná banka Slovenska via the NBS-maintained Central Register of Regulated Information (CERI). These issuers numbered 69 as at 31 December. Proceedings were initiated against two issuers for not submitting complete annual financial reports for 2016. These issuers were at the same time barred from trading on the BSSE regulated open market.

Two on-site inspections of investment firms were initiated in 2017. One was a comprehensive on-site inspection and another one was thematic on-site inspection focused on the provision of investment services, investment activities, and ancillary services to customers.

One thematic on-site inspections initiated in 2016 was completed in the second quarter of 2017. Conducted at a banking entity, the inspection focused on whether investment services, investment activities, and ancillary services were being provided to customers in accordance with the Securities Act, and on the performance of

depository activities for the supplementary pension scheme and investment fund sector.

A further three on-site inspections were commenced at banking entities in 2017 and concerned mainly the provision of investment services, investments activities, and ancillary services to customers in accordance with the Securities Act. One of these inspections was completed in the fourth quarter of 2017.

#### THE INVESTMENT FUND SECTOR

A total of seven investment fund management companies (IFMCs) were operating in the Slovak financial market in 2017. Three of them were issued with five authorisations to establish an investment fund. In regard to this sector, the FMS Unit issued 80 decisions in 2017 concerning prior approvals and five decisions authorising an IFMC to establish an investment fund. The FMS Unit received 80 notifications from European standard funds concerning the intention to make a public offering of their securities in Slovakia and 36 notifications from foreign fund management companies concerning the marketing of their securities in Slovakia via private offerings, under the freedom to provide services.

In 2017 off-site supervision was exercised over the seven domestic IFMCs, which as at the end of the year were managing a total of 66 standard funds (including five funds established under the Collective Investment Act and managed by a foreign IFMC) and 21 alternative investment funds, and over five banking entities performing depository activities in accordance with the Collective Investment Act. Off-site supervision focused on checking IFMCs and depositories for their compliance with reporting obligations towards NBS, as well as on assessing the riskiness of executed transactions and the impact of these transactions on funds' global risk exposure and on the pricing of funds' assets.

Three thematic on-site inspections initiated in 2016 were completed in 2017, and a further three thematic on-site inspections were initiated in the fourth quarter of 2017. The inspections focused on checking the application of remuneration principles, compliance with ESMA Guidelines on sound remuneration policies under the Alternative Investment Fund Managers Directive (AIFMD), and on checking the implementation of



the compliance function in regard to measures strategies and procedures for risk identification and internal audit.

## 2.3 FINANCIAL MARKET REGULATION

Národná banka Slovenska cooperates with the Slovak Ministry of Finance and Ministry of Labour, Social Affairs and Family in the drafting of primary and secondary laws concerning the financial market, issues generally binding rules on the implementation of legislation concerning the financial market, and drafts and publishes methodological guidelines, opinions and recommendations explaining the application of primary and secondary legislation relating to supervised entities and their activities.<sup>6</sup>

### THE BANKING SECTOR

In 2017 NBS, in cooperation with the Slovak Ministry of Finance, drafted an amendment to the Banking Act in order to establish a new regulatory framework that would amend and revise the mortgage banking sector. One aim of the amendment was to address risks identified in recent years by NBS, by mortgage banks as issuers of mortgage bonds, by credit rating agencies in the process of assigning credit ratings to mortgage bond programmes, and by professional investors from the ranks of private investors and international financial institutions. Another aim was to respond to ongoing EU-level activities concerning setting of harmonised quality standards for covered bonds, to the need to support long-term funding in the Slovak banking sector, and to preparations for new qualitative liquidity requirements.

NBS also drafted an amendment to the Housing Loan Act in order to supplement provisions on the indebtedness indicator limiting the debt-to-income ratio, and it issued a Decree laying down detailed provision on the assessment of borrowers' ability to repay consumer loans.

Besides that decree, NBS issued a further five decrees in 2017 in relation to the banking sector.

One of them was a decree laying down national discretions for institutions under a separate regulation. These discretions allow Member States or national competent authorities to introduce

rules different from those laid down in the underlying regulation, the Capital Requirements Regulation (CRR). In this decree, national discretions are specified on the basis of experience gained in the area of financial market regulation (taking into account current financial market conditions), but mainly on the basis of an ECB Guideline on the exercise of options and discretions in relation to less significant institutions.

Another two decrees were issued in response to the need for aligning terms laid down in similar legislation and to incorporate NBS specialist departments' requirements based on insights from practice: one was a decree on the elements of a notification required to identify other persons who, by virtue of their relationship to the notifier, have a special relationship with a bank or foreign bank branch; the other was a decree on the elements of a bank's application for prior approval to establish a foreign branch.

Another decree concerned reporting by banks and foreign bank branches. The decree was designed to ensure NBS's ongoing collection of data from these entities for supervisory purposes, using reporting templates that NBS may require from banks and foreign bank branches in addition to EU reporting requirements (FINREP/COREP); it also added some new templates. Also related to this area was a decree on reporting for supervisory purposes by consumer credit providers. The decree followed on from the adoption of an amendment to the Consumer Credit Act which expanded the reporting obligation towards NBS to include all consumer credit providers, irrespective of any restrictions on the scope of their lending.

### PAYMENT SERVICES AND ELECTRONIC MONEY ISSUANCE

In 2017 NBS, in cooperation with the Slovak Ministry of Finance and the Slovak Banking Association (SBA), drafted an amendment to the Payment Services Act for the purpose of enacting the EU's second Payment Services Directive (PSD 2) into Slovak law; the amendment entered into force in the second half of 2017.

The main aims of PSD 2 are to increase transparency and facilitate innovation in payment services, to ensure an efficient and effective payments market, to introduce new elements that will make electronic payments easier to use (particu-

<sup>6</sup> For more information on documents about the specific segments of the financial market covered in this chapter see the NBS website at <https://www.nbs.sk/sk/dohlad-nad-financnym-trhom/legislativa/legislativa>



larly with regard to low-cost internet and mobile payments), to implement new security measures aimed at reducing payment security risks, and to strengthen consumers' rights and increase their awareness in order to increase their protection. As regards the practical application of PSD 2, for example in the area of third party access, a number of joint meetings were held in 2017 between representatives of NBS and the Czech central bank, Česká národní banka (ČNB), for the purpose of exchanging information. In this context, NBS published information on its website about third party payment account access.<sup>7</sup>

#### NON-BANK LENDERS

In 2017 NBS drafted a decree laying down detailed provisions on the assessment of borrowers' ability to repay consumer loans. Entering into force on 1 January 2018, the decree supplied the missing link in the regulatory provisions aimed at supporting sound and sustainable lending to households. Unlike the NBS recommendation on risks related to market developments in retail lending, which had been in effect up to that point, the new decree applies not just to the banking sector, but to all consumer credit providers. The decree specifies the methodology for calculating a loan applicant's debt service-to-income ratio, requirements for the evidencing and verification of a borrower's income, and limits on the terms of consumer loans.

#### INSURANCE

In 2017 NBS issued three decrees concerning the insurance sector. These amended three existing decrees by introducing provisions related to the Act on criminal liability of legal entities. In all three cases, a criminal record check certificate was added to the documents that the respective legal entities are required to produce in order to demonstrate their eligibility to have a qualifying holding in an insurance or reinsurance undertaking (required as part of the procedure for demonstrating compliance with conditions for the granting of an authorisation to conduct insurance business or an authorisation to conduct reinsurance business), and in order to demonstrate their eligibility to apply for prior approval under Article 77(1)(a) to (c) of the Insurance Act.

Regarding the levy on certain insurance premiums imposed under Article 68 of the Insurance Act, NBS issued in 2017 a Methodological Guide-

line which provides explanatory details to insurance undertakings, insurance undertakings from other EU Member States, and branches of foreign insurance undertakings about the setting of the levy base, the procedure to be followed in the case of payment arrears or overpayment, and how to demonstrate to NBS and the Ministry of Finance that the levy has been paid.

In March 2017 NBS published three recommendations that transpose the following EIOPA guidelines: Preparatory Guidelines on product oversight and governance arrangements by insurance undertakings and insurance distributors; Guidelines on the loss-absorbing capacity of technical provisions and deferred taxes; and Guidelines on the application of outwards reinsurance arrangements to the non-life underwriting risk sub-module.

In October 2017 NBS published on its website a statement on product criteria for the drawing-up of key information documents (KIDs), the aim being to give insurance undertakings providing insurance-based investment products guidance in the production of the KIDs, which they are required to provide policyholders before entering into an insurance contract with them.

#### THE PENSION FUND SECTOR

As regards the supplementary pension scheme (third pillar of the pension system), NBS's regulatory activity in 2017 centred on the participation of FMS Unit representatives in a working group tasked with drafting an amendment to the Supplementary Pension Scheme Act. The group was established by the Slovak Ministry of Labour, Social Affairs and Family and the purpose of the amendment was to enact into Slovak law the EU Directive on the activities and supervision of institutions for occupational retirement provision (IORP II). The amendment's main provisions relate to the organisation and governance of supplementary pension management companies (specifically the introduction of new key functions within the corporate governance structure), as well as to SPMCs' information obligation – with further details given about the information that SPMCs are required to provide scheme participants before the participant signs the contract, when the participant is contributing to the scheme, and before the participant reaches retirement age or during the period

<sup>7</sup> <http://www.nbs.sk/sk/dohlad-nad-financnym-trhom-prakticke-informacie/upozornenia-a-oznamenia/informacia-narodnej-banky-slovenska-k-pristupu-tretich-stran-k-platobnemu-uctu>



when the participant is drawing benefits under the scheme.

As part of its legislative remit, NBS also drafted and issued a Decree on risks, risk management and measurement systems, and the calculation of global exposure and counterparty risk in supplementary pension funds.

Regarding the old-age pension scheme (second pillar), NBS cooperated in the drafting of secondary legislation issued by the Slovak Ministry of Labour, Social Affairs and Family. The activity concerned amendments to a decree on offer letters and to a decree on information about pensions governed by the Old-Age Pension Scheme Act.

#### FINANCIAL INTERMEDIATION AND FINANCIAL ADVISORY SERVICES

A substantial amendment to the Financial Intermediation and Financial Advisory Services Act was published in the Slovak Collection of Laws in 2017 and entered into force on 23 February 2018. The amendment enacted into Slovak law the EU Directive on insurance distribution (replacing the 2002 EU Directive on insurance mediation), implemented provisions based on insights from practice, and enacted some parts of the EU's Mortgage Credit Directive into Slovak law (concerning cross-border financial intermediation or financial advisory services in respect of the provision of housing loans). The overall objective of the amendment is to protect consumers entering into agreements under which financial services are provided.

#### THE SECURITIES MARKET

Regarding the securities market, 2017 began with NBS and the Slovak Ministry of Finance continuing their close cooperation on an amendment to the Securities Act that would enact MiFID II into Slovak law. The amendment entered into force on 1 November 2017, with the exception of certain provisions scheduled for entry into force at a later date in accordance with MiFID II, some on 3 January 2018 and others on 3 September 2019. This amendment marked the culmination of the national transposition process for MiFID II, and by the end of the year the new provisions were being applied and interpreted in practice.

NBS also cooperated with the Finance Ministry in drafting an amending act that would amend the

Financial Market Supervision Act as well as certain other laws. The purpose of the amendment was to improve the legal framework so that supervised entities' annual contributions are set on a fairer basis, and to revise provisions concerning proceedings conducted before NBS and the bank's supervision of the financial market. A related aim was to establish a legal framework in Slovakia for the implementation of NBS's intervention powers granted by the EU's Regulation on key information documents for packaged retail and insurance-based investment (PRIIPs) and Regulation on Markets in Financial Instruments (MiFIR), with these powers due to come into effect in January 2018.

In June 2017 NBS, in agreement with the Slovak Ministry of Finance, issued an amendment to the NBS Decree on fees for acts performed by Národná banka Slovenska, as a response to matters arising from the relevant EU and Slovak legislation.

In the second half of 2017 NBS, as part of its regulatory remit, drafted and issued two amendments to decrees on reporting. One amendment concerned reporting by investment firms, the other dealt with reporting by stock exchanges and central securities depositories. The two decrees were produced in response to legislative changes resulting from the enactment of MiFID II into Slovak law and to supervised entities' reporting obligation to competent supervisory authorities under MiFIR and the respective delegated regulations.

In the year under review, the FMS Unit published on the NBS website<sup>8</sup> information about the application of exemptions under MiFID II based on the scope of trading in commodity derivatives. The information was published so that the application of these exemptions would be facilitated by having the entities concerned complete the forms and send them to NBS by a stipulated deadline.

#### THE INVESTMENT FUND SECTOR

As part of its legislative activities in 2017, NBS was involved in the drafting of an amending act which, besides amending the Securities Act, included amendments to the Collective Investment Act; it entered into force on 1 November 2017. The amendments included proposals made by NBS in cooperation with the Slovak Association of Asset Management Companies

<sup>8</sup> <http://www.nbs.sk/sk/dohlad-nad-financnym-trhom/dohlad/trh-cennych-papierov/mifid-ii-a-mifir/dalsie-dokumenty/uplatnenie-vn-imky-z-dovodu-vedlajsej-cinnosti-aa>



(SASS). These were aimed at enhancing investment fund activity in response to feedback from participants in the local capital market. One proposal, for example, was to allow certain types of fund to merge; another was to impose an obligation to draw up key investor information for investors in qualified investor funds.

## 2.4 BANK RECOVERY AND RESOLUTION

In April 2017 the Resolution Council held its 6th meeting. In addition to addressing the issue of contributions to the Single Resolution Fund in 2017, the Council approved the draft financial statements of the national resolution fund for 2016 and dealt with the following: changes to the Council's statutes and rules of procedure; draft simplified resolution plans; and criteria for the application of simplified obligations in regard to the production of resolution plans. The Council's 7th meeting took place in November 2017. Besides discussing developments in resolution plans and related methodologies in 2017, the Council noted efforts at the international level to establish a resolution framework for the insurance sector.

Also in 2017, the FMS Unit was monitoring developments in regard to the resolution of financial corporations other than credit institutions and investment firms.

In summer 2017 EIOPA and the ESRB, acting independently of each other, published documents in which they publicly presented their opinions on the possible benefits and form of a harmonised recovery and resolution framework for insurance undertakings in the EU.<sup>9</sup> These were initial steps towards the establishment of an EU legal framework that, among other things, should have a direct impact on insurance undertakings in Slovakia. The framework should be aimed at protecting policyholders and ensuring financial stability, and it should apply to all (re)insurance undertakings subject to the Solvency II regime.

## 2.5 FINANCIAL CONSUMER PROTECTION

In the field of financial consumer protection, the FMS Unit addressed several significant issues

during the course of its methodological activities in 2017. In response to the judgment of the EU Court of Justice in Case C-42/15 Home Credit Slovakia, a.s., brought against Klára Bíróová, the FMS Unit issued an opinion on the implications of the judgment for consumer lending, in particular for the mandatory elements of consumer credit agreements. Based on the results of monitoring of advertising campaigns and promotional activities, the FMS Unit issued an opinion on certain questions concerning the price promotion of credit products. Its objective in doing so was to raise awareness about the obligations of supervised entities and about procedures that the FMS Unit deems to constitute good and bad practice.

On the basis of findings made during the course of supervision conducted in 2016 and 2017, a total of 44 sanction proceedings were initiated with the aim of providing redress to financial consumers in regard to services provided by supervised entities. In these proceedings, the FMS Unit had the authority not only to impose fines but also to take other measures in support of financial consumer protection, including the prohibition of the unfair commercial practice or the use of unfair contract terms and the issuance of injunctions to eliminate or rectify shortcomings identified. In 2017 five of the 44 proceedings resulted in decisions imposing sanctions and 39 in the issuance of sanction orders.

As regards supervision in the area of financial consumer protection, its focus in 2017 was on consumer lending in the banking and non-banking sector and on the sale of long-term investment products (including unit-linked insurance), with particular attention paid to the provision of products through independent financial agents. A key priority of off-site supervision was to monitor the advertising of financial services in print media, and on television and radio, the internet, and social media. The supervisory activity also included continuous monitoring for unauthorised providers of financial services.

In 2017 the NBS Financial Consumer Protection Supervision Section conducted two broad surveys, 21 investigations of unauthorised business, and 50 off-site examinations following on from broad surveys and analyses. There were also six new on-site inspections, focused on banks'

<sup>9</sup> EIOPA: *Opinion to Institutions of the European Union on the Harmonisation of Recovery and Resolution Frameworks for (Re) Insurers across the Member States*, July 2017.

ESRB: *Recovery and resolution for the EU insurance sector: a macro-prudential perspective*, August 2017.