



MAIN FACTORS BEHIND FINANCIAL STABILITY IN SLOVAKIA IN THE FIRST HALF OF 2012

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The importance of financial stability has recently been ever stronger supported by current developments in the euro area. Unsustainable public debts and weak economic growth in combination with the lack of capital and liquidity in many European banking groups have created a vicious circle, with no obvious solutions. Financial stability in Slovakia should thus be interpreted in these circumstances. The main threats to financial stability can be simplified in four categories. First is the credit risk of enterprises and households determined by weakening economic conditions. Taking into account high capital levels and appropriate provisioning, this risk seems manageable by banks. The second factor could be the concentration of the Slovak government bonds in banks' books, when, as a result, even lower price volatility may lead to material revaluation losses. This risk can be viewed as largely mitigated through holding a high portion of these bonds in the HTM portfolio. The third and more dangerous factor is declining profitability jeopardised by a weaker loan market, growing competition and fiscal policy measures. Finally, the last risk category stems from a combination of the prevailing foreign ownership of the domestic banking sector and the strong ideological regulatory pressure from the European Commission focused on large European banking groups, which systematically underestimates the importance of national banking sectors and their stability. (p. 2)

A BANKING UNION AND A SINGLE SUPERVISORY MECHANISM

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On 1 January 2011, the European System of Financial Supervision (ESFS) became reality in the EU. The ESFS has been established to improve co-operation among the supervisory authorities in the EU Member States, strengthen supervision of cross border groups and develop a set of uniform European rules applicable to all financial institutions in the internal market (the single rule book). Day-to-day supervision of financial market participants has been left to the national level. In mid-2012, on the backdrop of persistent financial and economic crisis, the European Council called for the creation of a banking union, which is likely to lead to the centralization of day-to-day supervision in the euro area. This article provides a brief analysis of the published proposal. (p. 8)

THE ECB'S COMPETENCES IN THE AREA OF REGULATION AND PRUDENTIAL SUPERVISION OF FINANCIAL INSTITUTIONS PRIOR TO THE PROPOSED ESTABLISHMENT OF A BANKING UNION

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The European Central Bank (ECB) is primarily vested with the monetary policy powers. In addition, the European law attributes limited competences to the ECB in the field of regulation and supervision of financial institutions as well. The aim of this article is to briefly analyse the current ECB powers related to prudential supervision of financial market intermediaries and discuss initiatives put forward in 2009 to extend these powers. Finally, it summarises the arguments that have been presented in favour and against such a solution. (p. 11)

THE CURRENT SITUATION OF THE NEW CRD IV/CRR APPROVAL PROCESS

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The article describes the current process of the preparation of new banking regulation known as CRD IV/CRR. First, the article explains reasons for splitting regulation into a Directive and a Regulation, shows the process of the open-ended creation at the European level and considers the implementation process at the national level. In the second part of the

article, main reasons for the introduction of the Single Rule Book are mentioned as well as a shift of supervisory responsibilities from the national to the European level. At the end, the new concept of liquidity is described from the perspective of a national supervisor, showing both its pros and cons. (p. 14)

FIT AND PROPER REQUIREMENTS FOR PERSONS WITHIN SOLVENCY II

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The Solvency II Directive in its Section on the System of Governance (Articles 42 and 43) stipulates the requirements of professional qualifications and good repute for persons who effectively run an insurance or reinsurance undertaking or a branch of a foreign insurance or reinsurance undertaking from other than an EU Member State, or have other key functions. More detailed provisions in this regard will be laid down by an implementing regulation in the form of an EU Regulation as well as Guidelines issued by the EIOPA. The Solvency II Directive allows these requirements to be provided in more detail by national legislation as well. The article deals with issues arising from the interpretation of the mentioned provisions and, based on discussions with the Slovak Ministry of Finance, their provision in the prepared new national law on insurance. (p. 18)

OUTSOURCING OF INSURANCE SERVICES

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The issue of insurance business outsourcing and its regulation by the Slovak law has undergone several changes. Since this topic has frequently been discussed by supervised entities as well as their supervisor Národná banka Slovenska, this article wants to convey a comprehensive view of legislative developments from the adoption of Act No 95/2002 Coll. on Insurance to the establishment of the new regulatory system of Solvency II. The article largely focuses on the potential impact of new Solvency II on the Slovak legal system in the light of its gradual implementation at the national level prepared in the European Union. Last but not least, the article deals with the proposed implementation rules of the Solvency II Directive which relate to the outsourcing of insurance services. (p. 20)

RECENT DEVELOPMENTS IN THE EU PENSION SAVINGS SECTOR

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In the last two years, the European Commission has initiated the review of the EU framework of occupational pension institutions that are most common in the UK, Ireland and the Netherlands. In Slovakia, the relevant directive has been transposed into the supplementary retirement savings legislation. The revision initiative has caused uproar in several Member States and among the industry. The article provides an overview of certain most contentious issues of this process. (p. 23)

NEW LEGAL REGULATION OF OTC DERIVATES ACCOUNTING

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An increased interest in gambling on OTC derivatives or in speculations based on OTC contracts, as well as lacking legal regulation and related insufficient powers of national regulators, all have been shown in the recent adverse developments on financial markets. Typical for trading in this type of financial instruments is its untransparent character. This relates particularly to OTC contracts, which are specially tailored for customers and only contracting parties can access them due to their private law character. Taking into account the situation of the OTC derivatives trading, the European authorities have adopted new regulation of the accounting treatment of OTC contracts. It is aimed at compulsory accounting of all standardized OTC derivative contracts within the central counterparty. (p. 26)