



2 FINANCIAL STABILITY AND FINANCIAL MARKET SUPERVISION⁵

The year under review saw a significant step forward to the creation of a banking union within the European Union. One of its three pillars, i.e. the Single Supervision Mechanism (SSM), acquired legal personality and entered the preparatory phase of its implementation. On 12 September 2013, the European Parliament approved a new system of supervision for the EU,⁶ providing a framework for the direct supervision of the largest banking groups in the Union. At the present time, a one-year preparatory phase is underway for the transfer of competences from the national supervisory authorities to the European Central Bank. The Financial Market Supervision Unit of NBS ('the FMS Unit') actively participated in the preparation of a legislative and procedural framework for the introduction of the SSM, mainly in the preparation of a manual defining the supervisory processes used under the SSM and in the preparation of a comprehensive assessment of banks, which will take place in 2014. This was accompanied by the process of identification of 'significant banks' and the adoption of a uniform system and a form for data reporting.

Considerable progress in 2013 was also achieved in the second pillar of the banking union: the Single Resolution Mechanism (SRM). Efforts are currently under way to complete a draft regulation stipulating uniform rules and procedures for the solution of crisis situations in credit institutions and certain investment firms within the scope of a single resolution mechanism and a joint bank resolution fund. On 18 December 2013, ECOFIN approved a joint position on the draft regulation concerning the SRM, which is one of the steps taken within the legislative process and is to be completed in 2014.

The third pillar of the banking union is formed by a joint deposit protection fund, an area in which little progress was made in 2013, but has remained the Union's priority task.

2.1 FINANCIAL STABILITY

In June 2013, an amendment to the Act on Supervision of the Financial Market⁷ came into

force, requiring NBS to exercise macroprudential supervision, too. A framework for the pursuit of this policy was developed by the FMS Unit in the same year. The basic and strategic objective of this macroprudential policy is to help maintaining the stability of the financial system as a whole. Part of this objective is to strengthen the financial system's resilience, to reduce the level of systemic risk, and to ensure a sustainable contribution to economic growth from the financial system. Within the scope of its macroprudential policy, NBS identifies, monitors, assesses, and mitigates the risks that threaten financial stability.

An important part of the macroprudential policy is the instruments of this policy, in particular the additional capital requirement for banks (i.e. capital buffers) and the option to tighten some of the regulatory requirements above the limits defined in the harmonised EU requirements. The FMS Unit may also use other tools, such as own recommendations, comments, and recommendations in the Financial Stability Report of NBS, meetings with financial institutions, changes in risk monitoring, etc.

The FMS Unit's main objective in 2013 was to prepare internal processes for the pursuit of the new policy. Macroprudential policy decisions will be taken by the Bank Board of NBS, which will regularly discuss matters related to this policy after the CRD IV Directive⁸ has been implemented. Another step was the definition of partial policy objectives in line with Recommendations of the European Systemic Risk Board (ESRB) on intermediate objectives and instruments of macroprudential policy and on the communication strategy of policy.

The main objective in the analytical area in 2013 was preparation for the pursuit of macro-prudential policy, in particular the continued development of its instruments in theoretical, analytical, and regulatory terms, and analytical work aimed at setting of counter cyclical capital buffers. Further analyses focused on other policy tools, on changes in risk weights and in the parameters of

⁵ A detailed report on the activities of the Financial Market Supervision Unit of NBS for 2013 is at <http://www.nbs.sk/en/financial-market-supervision/analysis-reports-and-publications-in-the-field-of-financial-market/reports-on-the-activities-of-the-financial-market-supervision>

⁶ The new system of supervision in the EU is regulated by Council Regulation (EU) No 1024/2013 of 15 October 2013 conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions, which came into force on 3 November 2013.

⁷ Act No 747/2004 Coll. on supervision of the financial market and on amendments and supplements to certain laws, as amended.

⁸ Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC.



internal risk calculation models for loans secured by residential or commercial real estate property, and on the impacts of capital conservation buffer establishing.

The second main task was to prepare the Financial Stability Report of NBS⁹ with the aim of keeping the public periodically informed of the financial sector's stability and of the trends posing a threat to this stability. The Financial Stability Report of NBS is part of the communication strategy used within the scope of its macroprudential policy and focuses on the main systemic risks faced by the Slovak financial sector.

2.2 SUPERVISION OF THE FINANCIAL MARKET

THE BANKING SECTOR

As at 31 December 2013, there were 13 banks and 15 branches of foreign banks operating in the banking sector of Slovakia. In the year under review, a total of 112 authorisation proceedings were conducted in regard to the banking sector. Most proceedings (70 decisions) concerned the granting of prior approval to replace a member or members of the statutory body of a bank, a bank's supervisory board, a managerial employee or general proxy. No sanction proceedings were brought in the year under review. One proceeding initiated in 2012 came to an end in 2013 with the issuance of a final decision to impose a penalty.

The most important decisions were as follows: a decision to grant a banking authorisation to a foreign bank, namely *UniCredit Bank Czech Republic, a.s., Praha, CR*, to conduct special mortgage transactions and perform the function of a depository through its organisational unit, i.e. *UniCredit Bank Czech Republic and Slovakia, a.s.*, and a decision to grant prior approval to a foreign bank, namely *ING Bank N.V., Netherlands*, to return its banking authorisation to perform the function of a depository through its organisational unit, *ING Bank N.V., branch of a foreign bank*¹⁰.

In 2013, *AXA Bank Europe, branch of a foreign bank*, providing banking services on the basis of single passport, ended its operations in the territory of Slovakia. In the same year, *KDB Bank Europe Ltd., Budapest, Hungary*, and *UniCredit Bank*

Czech Republic, a.s., Praha, CR, commenced banking activities in Slovakia through their branches.

In the year under review, NBS registered 14 foreign credit institutions that notified their intention to provide cross-border banking services in the territory of Slovakia without establishing a branch.

On the basis of a notification sent by NBS to the supervisory authorities of the Member States concerned, *Sberbank Slovensko, a.s.* (formerly *Volksbank Slovensko, a.s.*) is authorised to provide cross-border banking services in the territory of France and Romania.

Supervision in the banking sector in 2013 (over banks and branches of foreign banks) was exercised on the basis of the annual supervision plan, the evaluated risk profiles of the supervised entities, and the applications of banks to use an own model for the calculation of capital adequacy requirements. The top priorities in 2013 were to monitor the credit and market risks of banks, their capital adequacy and liquidity, and to evaluate the internal credit and market risk models of banks and the changes made to these models.

In 2013, the FMS Unit carried out monthly analyses of the statements and reports received from banks and branches of foreign banks, quarterly analyses of the risk profiles of individual banks, and compiled comprehensive annual reports on the banking sector, including a detailed assessment of each bank. For the purposes of an aggregate assessment of banking groups in terms of risk and capital, the FMS Unit also prepared detailed risk profile reports for the home supervisors of banks that are the subsidiaries of banks based in the territory of another EU country.

In 2013, a total of ten thematic on-site inspections were commenced in banks and branches of foreign banks, seven of which were completed in the same year. Within the scope of these inspections, the FMS Unit also assessed eleven applications for the use of, or for its change, an internal risk measurement model for capital requirement calculation for credit risk and operational risk. One of the top priorities of on-site inspections was to assess the risk management system's effectiveness, mainly for credit risk, market risk, operational risk, and liquidity risk. Apart from

⁹ <http://www.nbs.sk/en/publications-issued-by-the-nbs/nbs-publications/financial-stability-report>

¹⁰ The branch still operates and provides banking services in the territory of Slovakia under the 'single passport system', i.e. it conducts banking activities on the basis of an authorisation issued by the competent supervisory authority of its home country.



this priority, on-site inspections also focused on the provision of investment and payment services, the internal system of administration and management of banks and branches of foreign banks, and on protection against money laundering and terrorist financing.

THE SECTOR OF PROVISION OF PAYMENT SERVICES AND ELECTRONIC MONEY ISSUANCE

As at 31 December 2013, there were nine payment institutions operating in the Slovak financial market. As a result of a recent amendment to the law on payment services¹¹, an electronic money institution is not allowed to issue electronic money or to provide payment services unless it had been duly authorised by 31 January 2013 to issue electronic money with or without limitations under the law on payment services. Under this amendment, *Slovak Telekom, a.s.*, *Telefónica Slovakia, s.r.o.*, and *Orange Slovensko, a.s.*, which were authorised by NBS to issue electronic money, ceased to issue and administer electronic money in a limited range by 31 January 2013. As of 1 February 2013, there were no electronic money institutions operating in the territory of Slovakia on the basis of an authorisation granted by NBS.

The most important decisions were the following: the decision to authorise *Slovak Telekom, a.s.*, to provide payment services without limitation on the range (1 February 2013) and a decision to authorise *Telefónica Slovakia, s.r.o.*, and *Orange Slovensko, a.s.*, to provide payment services in a limited range (1 February 2013).

In 2013, NBS registered 45 foreign payment institutions and 15 foreign electronic money institutions that had notified their intention to provide payment and other services in the territory of Slovakia without establishing a branch.

On-line inspections in payment institutions were conducted according to the annual plan of inspections and the evaluation of activities performed by such financial market entities and their overall risk profile. In 2013, one comprehensive on-site inspection (started in 2012) was completed and two comprehensive on-site inspections were commenced, with the focus being on verifying and evaluating the provision of payment services, compliance with the business conditions stipulated for payment institutions, the system of internal control and internal audit,

the risk management system and selected risks, and the prevention of money laundering and terrorist financing. One of these inspections was formally completed in the same year.

Off-site supervision comprised the following activities: verification of compliance with the statutory obligations of entities under supervision in accordance with the law on payment services, collection of data according to the decree on the submission of statements by payment institutions and electronic money institutions, and regular monthly evaluations and analyses of the data obtained during the monitoring of individual entities under supervision.

THE FOREIGN EXCHANGE SECTOR

In this sector, NBS granted seven foreign exchange authorisations for currency exchange activities in 2013. As at 31 December 2013, there were 1,188 entities in Slovakia holding a foreign exchange authorisation. In 2013, seven sanction proceedings were instituted, six of which were completed with a final decision to impose a penalty.

Supervision in this sector focused on verifying compliance with the Foreign Exchange Act¹², mainly in the area of trade in foreign exchange assets in the range of currency exchange activities, consisting in the purchase or sale of foreign currency for euros in cash, and compliance with the foreign-exchange reporting requirement by entities engaged in business. In 2013, ten on-site inspections were carried out in the area of currency exchange activities and one on-site inspection in the area of compliance with the foreign-exchange reporting requirement.

THE INSURANCE SECTOR

As at 31 December 2013, there were 17 insurance companies operating in the Slovak insurance market, with a registered office in the Slovak Republic. The decisions issued in 2013 concerned mainly the granting of prior approval for the nomination of members to a company's board of directors, changes in authorisations for the conduct of insurance activities and for the acquisition of qualifying holdings in insurance companies. The most significant decisions concerned the granting of an authorisation to *NOVIS Poistovňa, a.s.*, to conduct insurance activities and the granting of prior approval for the merger of *D.A.S. legal protection insurance, a.s.*, and *D.A.S.*

11 Act No 492/2009 Coll. on payment services and on amendments to certain laws, as amended.

12 Act of the National Council of the Slovak Republic No 202/1995 Coll., the Foreign Exchange Act and the act amending and supplementing Act of the Slovak National Council No 372/1990 Coll. on infringements, as amended.



Rechtsschutz AG, insurance company. In 2013, a total of 41 authorisation proceedings were conducted, 36 of which came to an end with the issuance of a final decision.

As regards sanction proceedings, one proceeding was brought and conducted in the area of insurance, but no final decision was issued by the end of 2013.

From the supervisory authorities of other Member States, 53 notifications were received concerning insurance or reinsurance companies intending to operate in Slovakia on the basis of the freedom to provide services directly or through a local branch.

In 2013, a total of 13 on-site inspections were commenced in line with the annual plan of inspections: one comprehensive inspection, three follow-up inspections, and nine thematic inspections focused on unit-linked insurance. Eight thematic on-line inspections were completed in the same year. They focused on verifying the adequacy of rates of premium and the correct calculation of insurance payments in the area of compulsory contractual third-party motor insurance.

In connection with the floods that hit Slovakia in June 2013, NBS verified the six largest insurance companies by using off-site supervision to assess the impact of insurance events on their financial situation.

In connection with the recommendations of NBS concerning the handling of insurance complaints¹³, NBS exercised off-site supervision in 2013 to verify the handling of complaints in the individual insurance companies. The off-site supervision focused on the acceptance, registration, handling, and evaluation of insurance complaints.

THE PENSION SECTOR

As at the end of 2013, there were six pension asset management companies and four supplementary pension management companies operating in this segment of the Slovak financial market. Decisions issued in 2013 concerned the granting of prior approval for the replacement of a depositary, prior approval for the merger of pension funds requested by three pension asset management companies in connection with a legislative change, and prior approval for a change in a pen-

sion fund's articles of association. In regard to this sector, only authorisation proceedings were conducted in 2013. A total of 92 proceedings were brought, 88 of which came to an end in 2013 with the issuance of a final decision.

Off-site supervision in the pension sector covered six pension asset management companies (managing a total of 21 pension funds) and four banking institutions performing depositary activities. In the supplementary pension sector, off-site supervision was conducted in regard to four supplementary pension management companies (managing a total of 15 supplementary pension funds) and four banking institutions performing depositary activities under the supplementary pension scheme¹⁴.

In the pension sector, two comprehensive on-site inspections were carried out in pension asset management companies in 2013. In the supplementary pension sector, one comprehensive on-site inspection was carried out. In 2013, thematic on-site inspections were commenced in two banking institutions performing depositary activities for the pension and collective investment sectors.

FINANCIAL INTERMEDIATION AND FINANCIAL ADVISORY SERVICES

As at the end of 2013, a total of 44,634 entities were registered in the *Register of Financial Agents and Financial Advisors* kept by NBS. Within the scope of authorisation proceedings, decisions were issued in 2013 to grant or modify an authorisation to act as an independent financial agent or financial advisor.

Within the scope of sanction proceedings, decisions were issued in regard to the imposition of a penalty (114 decisions), the revocation of an authorisation (7 decisions), the imposition of a penalty and a measure for the elimination of shortcomings (1 decision), and the restriction of an authorisation to act as an independent financial agent (1 decision).

In 2013, a total of 386 proceedings were conducted, including 114 authorisation proceedings and 272 sanction proceedings, of which 118 authorisation proceedings and 155 sanction proceedings came to an end in the same year with the issuance of a final decision.

¹³ Recommendation of the FMS Unit of NBS of 17 December 2012 No 5/2012 on EIOPA Guidelines on Complaints-Handling by Insurance Undertakings (EIOPA-BoS-12/069 SK).

¹⁴ Act No 650/2004 Coll. on supplementary pension saving and on amendments to certain laws, as amended.



In 2013, a total of 81 new entities were registered and 80 financial agents / advisors were removed from the register. In addition, 262 financial agents from other Member States were entered into the register, mostly agents entitled to mediate insurance and reinsurance services in Slovakia on the basis of the principle of free provision of services directly or through a local branch. NBS also accepted and processed 5,390 electronic proposals for the registration or deregistration of affiliated entities.

In 2013, NBS exercised off-site supervision to verify compliance with the statutory reporting requirement by the entities under supervision, i.e. the reporting of certain information to NBS via the internet or in writing. Off-site supervision was also used to verify compliance with the requirement to submit to NBS a report prepared by a senior manager of each independent financial agent / financial institution on any breach of duty by a subordinate or tied financial agent, a report prepared by a senior manager of each independent financial agent / advisor on the performance of tasks in the previous calendar year, and a statement of financial intermediation and financial advisory services. In addition, the following areas were subject to off-site supervision: compliance with the requirement to submit a proposal for the entry of financial intermediation or financial advisory services into the commercial register by each independent financial agent / advisor within three months of the date of authorisation and 31 submissions received from natural and legal persons in regard to the activities of financial agents or financial advisors.

Four comprehensive and one follow-up on-site inspections were carried out in 2013, and one on-site inspection that started in 2012 was formally completed.

THE SECURITIES MARKET SECTOR

As at the end of 2013, there were 14 non-bank investment firms operating in the Slovak financial market. A total of 185 notifications were received during the year from foreign investment firms that intended to provide cross-border investment services in Slovakia. One of the most important decisions concerned a change in the authorisation of *PROXENTA Finance, o.c.p., a.s.*, and *Sympatia Finance, o.c.p., a.s.*, to provide investment services in the securities market. Another

major decision was the granting of prior approval to *Continental Asset Management, o.c.p.*, for the return of its authorisation to provide investment services. The authorisation became null and void on the date of return, i.e. 22 May 2013.

Regarding the public offering of securities, a total of 61 securities prospectuses were approved in 2013 under Article 125(2) of the Securities Act, three supplements to securities prospectuses, and one separate registration document. During the year, 61 notifications were received in regard to the approval of securities prospectuses or supplements to such prospectuses, from the supervisory authorities of other EU Member States.

In the area of investment certificates (which are not issued by way of public offering and are not requested by the issuer to be admitted to trading on a regulated market), eight investment certificate prospectuses were approved in 2013 under Article 4a(7) of the Securities Act, in addition to one separate registration document.

Regarding the public offering of assets, four public offerings were made in 2013 on the basis of investment prospectuses approved by NBS¹⁵. Compared with 2012, the issuers of public offerings in 2013 were less interested in this form of fund raising for investment purposes, owing to a prepared amendment to the Collective Investment Act¹⁶, which came into force on 22 July 2013.

As part of the Bank's authorising activity in the segment of share issuers whose ordinary shares are traded on a regulated market of the Bratislava Stock Exchange (BCPB, a.s.), two proceedings were conducted in regard to proposals for compulsory take-over bids, which came into force in the same year.

In the area of authorising activities regarding the Central Securities Depository of the SR (CDCP SR, a.s.), four proceedings were conducted in 2013. In the year under review, NBS granted one prior approval for depository activities, i.e. to *UniCredit Czech Republic, a.s., Praha*. As at the end of 2013, the Central Securities Depository had 20 members.

Within the scope of authorising activities concerning the Bratislava Stock Exchange, two proceedings were conducted in 2013.

¹⁵ Act No 566/2001 Coll. on securities and investment services (the Securities Act) and on amendments and supplements to certain laws, as amended.

¹⁶ Act No 203/2011 Coll. on collective investment.



In 2013, there were six domestic asset management companies operating in the Slovak financial market. A total of eleven licences were granted to these companies to establish or manage an investment fund. Over the course of the year, 70 prior approval decisions were issued by NBS, specifically 30 decisions concerning prior approval for a change in the articles of association of investment funds, eight decisions concerning prior approval for the merger of investment funds, seven decisions concerning prior approval for the acquisition of a qualifying holding in a management company, and one decision concerning prior approval for the sale of a firm to a management company.

Act No 206/2013 Coll., enacted to amend the Collective Investment Act with effect from 22 July 2013, has introduced a new form of collective investment, i.e. investment in alternative investment funds (AIFs). Investors now have an option to invest in AIFs managed by a management company authorised under Article 28a of the Collective Investment Act or to invest in AIFs or SAIFs (self-governing alternative investment funds) operating under Article 31a of the Collective Investment Act on the basis of registration in the *Register of Managers* kept by NBS. In 2013, NBS assessed one application for the registration of an SAIF, which satisfied the conditions for registration and was registered in the register of asset managers as an SAIF. In this period, no AIF manager was registered and no one requested such registration.

Within the scope of authorisation proceedings in the area of securities, 189 proceedings were commenced in 2013 and 182 proceedings came to an end with the issuance of a final decision.

As regards sanction proceedings, five proceedings were instituted in 2013 (three proceedings were brought against a natural person – for failure to implement an NBS decision imposing a sanction for not submitting a compulsory take-over bid and two proceedings were brought against a legal person for failure to submit a compulsory take-over bid). Overall, six sanction proceedings were conducted in the year under review. In this area, one decision was issued to impose a sanction on an issuer for failure to submit a compulsory take-over bid.

In the securities market sector, off-site supervision in 2013 covered six domestic management

companies (managing a total of 56 standard investment funds and 20 alternative investment funds) and five banking institutions performing depositary activities under the Collective Investment Act. At the same time, seven standard investment funds managed by a foreign management company were under supervision. In addition, 14 domestic investment firms and seven foreign investment firms operating in Slovakia through a local branch according to the MiFID¹⁷ guideline were supervised in 2013.

In the securities market sector, three comprehensive and eleven thematic on-site inspections were carried out in 2013. In the year under review, two comprehensive and two thematic on-site inspections were carried out in the collective investment sector and two thematic on-line inspections in the area of depositary activities.

2.3 FINANCIAL MARKET REGULATION

THE BANKING SECTOR

In 2013, the FMS Unit focused its regulatory activities on the preparation and implementation of a new regulation in connection with the transposition of international standards (Basle III) into the EU legislation. The original plan to create a new regulatory framework for banks in the form of a new capital requirements directive (CRD IV) proved unfeasible in regard to the creation of a single market governed by uniform rules. For that reason, the regulatory rules were divided into a directive (CRD IV Directive) and, in larger part, into a regulation (CRR¹⁸) with a direct binding force. In connection with the adoption of the CRD IV Directive and CRR Regulation, NBS closely cooperated with the Ministry of Finance in the finalisation of this legislative package in order to ensure that the national supervisory authority has sufficient powers in exercising supervision over banks in its jurisdiction and to ensure appropriate tools for the maintenance of stability in the financial sector and for the prudent operation of banks at the national level. The new regulatory framework is expected to improve the functioning of banks and investment firms in any phase of the economic cycle, as well as in the event of financial market shocks. The EU's intention was to introduce a 'single rule book', i.e. uniform rules for a single market, for all EU banks without regulatory differences at the national level.

¹⁷ Directive 2004/39/EC of the European Parliament and of the Council of 21 April 2004 on markets in financial instruments amending Council Directives 85/611/EEC and 93/6/EEC and Directive 2000/12/EC of the European Parliament and of the Council and repealing Council Directive 93/22/EEC.

¹⁸ Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012.



The harmonisation of the Slovak legal system in connection with the implementation of the CRD IV Directive and the directly binding CRR Regulation was a big challenge for NBS. In cooperation with the Ministry of Finance, NBS drafted an amendment to the Banking Act¹⁹ with the aim of transposing the said legislative package into the Slovak legal system with effect in the course of 2014.

In connection with the implementation of the CRR Regulation and CRD IV Directive, the secondary legislation was to be amended, too. Hence, the FMS Unit drafted a new NBS decree on the submission of statements by banks and investment firms for the purpose of data collection according to the EBA's implementing technical standards.

The FMS Unit also prepared an amendment to the decree on liquidity and the method of liquidity risk management for banks and branches of foreign banks with the aim of updating the current liquidity indicators so that they better reflect the actual situation in the economy and in the financial sector.

THE SECTOR OF PROVISION OF PAYMENT SERVICES AND ELECTRONIC MONEY ISSUANCE

In 2013, the most noteworthy project in this area was the implementation of the Single European Payments Area (SEPA) project. The legislative framework for SEPA was given by a regulation imposing requirements for payments and collections in euros²⁰. This directive set the final deadline for migration to SEPA payments and SEPA collections at 1 February 2014. Each country adopting the SEPA system is required to ensure migration to SEPA payment instruments in accordance with the regulation. Thus, 2013 saw the final phase of Slovakia's migration to the SEPA standards.

THE FOREIGN EXCHANGE SECTOR

Last year, NBS drew up and issued a decree specifying the elements of an application for a foreign exchange authorisation and the elements of an application for trading in foreign exchange assets. The decree took into account the changes in the Foreign Exchange Act, as well as the Bank's practical experience in foreign exchange supervision.

THE INSURANCE SECTOR

In 2013, NBS drew up and issued an amendment to the decree specifying the minimum amount

of guarantee funds for entities from this sector on the basis of data published by the Statistical Office of the European Communities on the European consumer price index for all Member States, with effect from 1 June 2013. In another decree, NBS set the value of the maximum technical interest rate in life insurance at 1.9%, in accordance with the directive concerning life assurance²¹.

In connection with the new Solvency II Directive²², the European Insurance and Occupational Pensions Authority (EIOPA) issued guidelines on 31 October 2013 to ensure that the Member States' supervisory authorities adopt a uniform convergence approach to the implementation of the Solvency II Directive. NBS transposed the EIOPA guidelines into four recommendations, which were issued at the end of 2013 and came into force on 1 January 2014. These recommendations regulate the process of applying for internal models, the system of governance, own risk and solvency assessment (ORSA), and the supply of information to NBS by insurance and reinsurance companies.

THE PENSION SECTOR

Regarding the pension sector, a significant amendment (so-called 'annuity amendment') was drafted in 2013 for the second pension pillar. NBS actively participated in this work as part of a working group set up by the Ministry of Labour and Social Affairs. The said amendment to the Old-Age Pension Scheme Act²³ concerning the saving phase was sent to the ministries concerned for comments procedure in the autumn of 2013, but the legislative process continues in 2014.

September 2013 saw the enactment of a major amendment to the Supplementary Pension Scheme Act. The amendment has changed several provisions of the law in order to ensure that the supplementary pension scheme meets its purpose better, introduced new rules for the activities of supplementary pension funds, including rules for risk management, and made the provisions governing investment more flexible for such funds. The amendment was drawn up by the Ministry of Labour and Social Affairs in cooperation with the FMS Unit of NBS, and came into force on 1 January 2014. On the basis of this amendment, the FMS Unit drafted two decrees

¹⁹ Act No 483/2001 Coll. 2001 on banks and on amendments and supplements to certain laws, as amended.

²⁰ Regulation (EU) No 260/2012 of the European Parliament and of the Council establishing technical and business requirements for credit transfers and direct debits in euro and amending Regulation (EC) No 924/2009.

²¹ Directive 2002/83/EC of the European Parliament and of the Council of 5 November 2002 concerning life assurance.

²² Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II).

²³ Act No 43/2004 Coll. on the old-age pension saving scheme and on amendments and supplements to certain laws, as amended.



to implement the provisions of the law concerning the authorisation of supplementary pension companies and the granting of prior approval. The FMS Unit also cooperated with the Ministry in the drafting of implementing decrees concerning key information on contributory supplementary pension funds and on statements of personal pension accounts.

FINANCIAL INTERMEDIATION AND FINANCIAL ADVISORY SERVICES SECTOR

A significant change in this area was brought about by an amendment to the law on financial intermediation and financial advisory services²⁴, which came into force in June 2013. The change consisted in the introduction of a regulatory framework for intermediation and advisory activities in the old-age pension sector. Before the entry into force of this amendment, old-age pension saving agreements could only be arranged by the staff members of pension asset management companies. Since 10 June 2013, however, such agreements can also be made via independent, subordinate or tied financial agents. The amended law allows NBS to recognise an untrustworthy person as trustworthy under the conditions laid down therein. On the basis of this amendment, the FMS Unit drafted and issued two decrees and one methodological guideline on the application of the provisions of the said law.

THE SECURITIES MARKET SECTOR

In the first half of 2013, the FMS Unit focused a significant part of its activities on cooperation with the Ministry of Finance in the preparation of an amendment to the Collective Investment Act. This amendment transposed, into the Slovak legal system, the Alternative Investment Fund Managers Directive (AIFMD)²⁵ that covers the management of non-UCITS funds, throughout the territory of the EU. The said amendment came into force on 22 July 2013. From that date on, the FMS Unit focused on the practical application of the amended law on collective investment, primarily the provisions pertaining to the new legal framework, for both domestic and foreign participants in the financial market. An important matter, for example, was a position taken on temporary provisions, which enabled the law to come into force gradually, and a methodological guideline on the anticipated re-authorisation of existing asset management companies.

The law on securities was also amended with effect from 10 June 2013. Under the amended law, NBS has become a national authority for the regulation of short sales and credit default swaps, as well as for OTC derivatives, central counterparties, and trade repositories in accordance with the European Market Infrastructure Regulation (EMIR). The requirements for the derivatives market arising from the EMIR regulation²⁶ significantly affected the FMS Unit's activities in 2013. Since this area was relatively new within the scope of regulation, the FMS Unit organised a one-day workshop in May for the financial market entities concerned, including a large-scale presentation of the EMIR regulation, with the objective of helping the entities to handle this issue and of answering questions concerning the duties and requirements arising from this regulation. Over the course of 2013, numerous guidelines, templates of notifications, and positions were issued as to how the individual duties are to be performed according to the said regulation.

In 2013, the FMS Unit also issued several methodological guidelines and recommendations concerning the securities market to transpose the European Securities and Markets Authority (ESMA)'s guidelines concerning collective investment, investment services, rules against market manipulation, and the regulation of short selling.

As regards **money laundering and terrorist financing**, the FMS Unit drawn up and issued methodological guidelines in 2013 for all segments of the financial market in respect of protection against money laundering and terrorist financing, including detailed instructions for money laundering prevention.

2.4 FINANCIAL CONSUMER PROTECTION

On 10 June 2013, an amendment to the Financial Market Supervision Act came into effect, allowing NBS in scope of financial market supervision to handle submissions received from the customers of supervised entities, mainly complaints about the provision of financial services or the conduct of other business of supervised entities. From that date on, NBS also served as a 'single contact point' for the financial consumers of all financial institutions, by accepting submissions from the customers of all financial institutions concerning financial products.

²⁴ Act No 186/2009 Coll. on financial intermediation and financial counselling and on amendments and supplements to certain laws.

²⁵ Directive 2011/61/EU of the European Parliament and of the Council on alternative investment fund managers.

²⁶ The Regulation (EU) No 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties (CCPs) and trade repositories (TRs).



ISSUING ACTIVITY AND CURRENCY CIRCULATION

More detailed information on the handling of submissions received from financial consumers are available on the NBS website²⁷. In order to make the submission handling process more effective, NBS allows financial consumers to deliver submissions in electronic form by filling in an electronic form and ensures the acceptance of submissions personally at its head office, as well as at its branches, where printed forms for submissions by financial consumers are available.

The number of submissions delivered by financial consumers to NBS showed a growing tendency in 2013. During the year, NBS received a total of 1,410 submissions from financial consumers, which was 37% more than a year earlier. Since the time when NBS started to serve as a single contact point, the average number of submissions delivered to NBS had increased to 126 submissions per month.

Among the financial market sectors, most submissions in 2013 were again made in the insurance sector (896 or 64%). The insurance sector was followed by the banking sector with 339

submissions delivered, i.e. 24% of all submissions. In other sectors, the number of submissions as a percentage of all submissions ranged from 0.1% to 4%.

In the insurance sector, the submissions concerned mostly motor third-party liability insurance, i.e. claims for compensation for damaged windscreens on motor vehicles, and life insurance products, i.e. capital life insurance and investment life insurance products. The complaints again indicated that financial consumers do not understand financial products and often confuse them with saving products.

The most frequent subject matter of submissions in the area of banking concerned, as in 2012, mortgage loans and other housing loans, specifically the amount of bank charges, early loan repayment charges, and interest rate changes.

The subject matter of submissions concerning financial intermediation was the method, range, and quality of information supplied to financial consumers before the financial service was provided.

²⁷ <http://www.nbs.sk/sk/dohlad-nad-financnym-trhom/ochrana-financneho-spotrebiteľa> (in the Slovak language only).

²⁸ Since euro banknotes and euro coins in circulation in Slovakia include banknotes and coins issued in other euro area countries, Národná banka Slovenska does not record the actual value and volume of currency in circulation, but only the euro banknotes and euro coins that NBS itself has put into and withdrawn from circulation. The cumulative net issuance as at 31 December 2013 refers to the difference between the value (volume) of euro banknotes and coins put into and withdrawn from circulation between 1 January 2009, when Slovakia joined the euro area, and 31 December 2013.

²⁹ The NNI increased by 12.7% in 2012, by 21.6% in 2011, and by 30.8% in 2010.

³⁰ The value of currency in circulation throughout the euro area as at 31 December 2013 was €956.2 billion, and the share of that currency issued in Slovakia was 0.9100%, or around €8.7 billion.

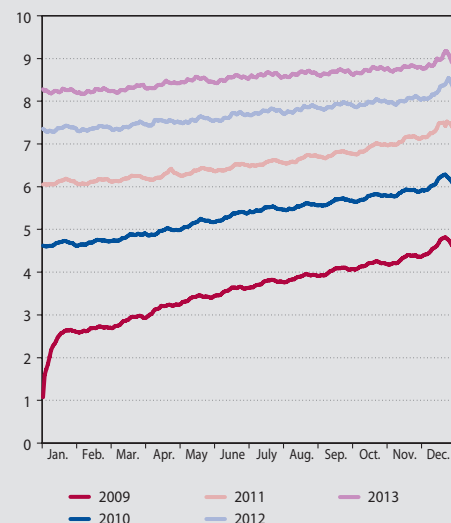
3 ISSUING ACTIVITY AND CURRENCY CIRCULATION

3.1 CUMULATIVE NET ISSUANCE

The cumulative net issuance (CNI)²⁸ of euro banknotes and coins in Slovakia had a total value of €8.9 billion as at 31 December 2013, with a year-on-year increase of 7.5% (€620.9 million). The CNI's growth rate in 2013 was lower than in 2012 and indicates that the CNI value is stabilising.²⁹ The value of the item *currency in circulation*, corresponding to Národná banka Slovenska's allocated share in the Eurosystem's production of euro banknotes (Banknote Allocation Key), amounted to €8.7 billion as at 31 December 2013.³⁰

Looking at the CNI development on a daily basis, it was virtually the same in 2013 as in previous years, with the year-on-year difference ranging between 0.7 billion and 1.0 billion (Chart 18). The CNI usually peaks during the pre-Christmas pe-

Chart 18 Cumulative net issuance of euro cash on a daily basis (EUR billions)



Source: NBS.