

THE CENTER FOR SECURITIES OF THE SLOVAK REPUBLIC PRIOR TO TRANSFORMATION

INTERVIEW WITH MS EMILIA PALKOVA,
THE CHIEF EXECUTIVE OFFICER OF THE CENTER FOR SECURITIES
OF THE SLOVAK REPUBLIC

The beginnings of the Center for Securities of the Slovak Republic (Stredisko cenných papierov, a. s.) go back to the period of the first wave of voucher privatisation. Over the course of its almost ten years of existence it has undergone several changes and become a pillar of the Slovak capital market.

In connection with the adoption of Act No. 566/2001 Coll. on securities and in-



vestment services the Center's main aim in 2002 is to obtain a licence for central depository activity. For this purpose it has adapted its organisational structure and created a new Strategy and International Relations Department, managed directly by the Ms E. Palkova. Concurrently, a working group has been created for the Center's transformation into a central depository.

How was the Center for Securities of the Slovak Republic founded and what is its mission?

The Center for Securities of the Slovak Republic was founded on 22 December, 1992, having been established pursuant to Act No. 600/1992 Coll. on securities (hereinafter simply the "Securities Act"). The Center was established by the SR Ministry of Finance as a joint-stock company with the 100 % stake held by the state. The main activity of the Center was the registration of book-entry stock and changes in their owners, registration of issuers and issues of book-entry stock and the provision of services to issuers, account holders, securities dealers, public markets and state administration authorities. The new act governing the securities field and thus also the founding of the Center was a direct result of the first wave of voucher privatisation, undertaken in the federal Czechoslovakia in 1991 and 1992, with more than 2.6 million Slovak citizens participating. The Securities Act provided for the dematerialised form of securities, the securities thus not having a material form, but were electronically recorded in the Center register. The introduction of book-entry stock was highly progressive and in line with trends in Europe.

When did the Center begin to provide services?

The first task of the Center was the sending of account statements to all those participants in the first wave of voucher privatisation who had successfully "invested" their vouchers, thereby acquiring shares in privatised companies. The Center managed this task very successfully, completing it in a very short time and effectively without complaints.

In April 1993, the Center concluded a contract with RM-

Systém Slovakia, a. s., in June 1993 with Burza cenných papierov v Bratislave a.s. (The Bratislava Stock Exchange, inc.), and with Bratislavská opčná burza a.s. (The Bratislava Options Exchange, inc.), on electronic access to the Center for Securities of the Slovak Republic. The first transfer of book-entry stock was done on 6 July, 1993. From this date onwards, the Center began to provide the whole range of its services and it can be said that on this date a capital market started to operate in Slovakia.

In June 1993, on the basis of a mandate by the SR Ministry of Finance of SR, the Slovak Center for Securities became the national numbering agency, and began to assign the international securities identification number ISIN for publicly tradable book-entry stock.

The Center has operated in Slovakia now for ten years. Can you in brief evaluate its activity?

The Center for Securities of the Slovak Republic has over the course of the past 10 years passed through several significant stages. As it used to provide its services directly to owners of book-entry securities, of which there were at the beginning 2.6 million, it established sub-branches throughout Slovakia, providing clients a whole range of services on a real-time basis. The Center provided services on a real-time basis also to public markets. In January 1996 3.33 million citizens registered in the second wave of voucher privatisation. Through the Center crediting SR National Property Fund bonds to their asset accounts, the number of its clients rose by almost 700 000.

Since its establishment in 1993, the Center has executed tens of thousands of services for the courts, tax authorities, execu-



tors, state supervisory authorities, the police, bankruptcy administrators, etc. At the same time, it has regularly fulfilled its duty to inform and publicise the breaching of book-entry stock limits in asset accounts pursuant to the Act.

In the course of its activity, the Center has built up a depository workplace, ensured the performance of two security audits and changed the nature of performing its services, namely from ensuring the provision of services through a supplier, to providing services to clients exclusively via its own employees.

The Center has taken an intensive interest in trends in the field of the capital market, primarily in European states. In 1994, it became a member of the Association of National Numbering Agencies (ANNA), in 1998 became a founding member of the Association of Central Securities Depositories of Central and Eastern Europe (CEECSDA). It has become actively involved in the activities of international organisations grouping IT users and has become a member of the Slovak Association for Security (SASIB).

Towards the end of 2001, new Act No. 566/2001 Coll. on securities and investment services and on amendments to certain acts was adopted. By when is the Center obliged to bring its activity into accordance with this Act?

The Center is obliged according to the Securities Act, approved by the SR Parliament on 9 November, 2001, to submit to the Financial Market Authority an application for a licence for the establishment and activity of a central depository, at latest by 31 December this year. For the period until the central depository established in accordance with the approved Act grants membership to the first member of the central depository, the Center shall continue in its activity pursuant to applicable regulations. We want to adapt to the new conditions immediately as this becomes feasible so that clients can begin to use the services of the central depository as soon as possible. At present, the Center is in the final stages of its work on materials necessary for submitting applications for the granting of a licence for the establishment and activity of a central depository.

What in practice will change in the Center's operation?

From view of the future central depository's operation, the new act represents a significant step forward from the current state, something which is clearly essential, not only in the structure of services, but also in the new organisation of its activity including organisational and technological changes. The central depository shall, besides the current activities provided by the Center, provide the clearing and settlement of trades in investment instruments. It will also continue to administer the register of securities issuers, provide services to its members, assign ISIN's to securities. It will thus perform activities representing the standard component of the work of central depositories in neighbouring countries, as well as EU and OECD member states, which creates for the Center conditions for the interconnection, and possible integration of the

Slovak central depository with central depositories in neighbouring countries or with those of the EU.

A significant change has also occurred in the case of clients' access to central depository services. The central depository will provide services to clients on a member basis, where members of the central depository will be those securities dealers to which the Financial Market Authority has granted its prior consent for this activity or the National Bank of Slovakia. In practice this means that the central depository will administer a register only on changes in the number and types of securities in client accounts and changes in the owners of securities will be executed directly by members of the central depository, namely securities traders. An exception will be only the asset accounts of central depository members and legal persons appointed by law, in respect of which the central depository will administer accounts directly.

The Act also determines new rules for supervision over the central depository. Regulation is much stricter than that to date, nevertheless with precise and clear rules. The Financial Market Authority shall oversee the central depository on a consolidated basis, approve members of the board of directors and the supervisory board, also approve the operating rules, as well as the entry of shareholders into the shareholder structure of the central depository.

Following the transformation, will the Center's relationship to clients change?

When the Center obtains a licence for the establishment and activity of a central depository (which I do not doubt), we will build this company in relation to clients on the basis of openness and participation. Our business policy will be client-oriented. We want to pursue a strategy that enables the activity and services of the central depository to reflect client needs. We envisage that we will build up the permanent professional bodies of a central depository, in which primarily client representatives would operate, whereby we want to create conditions for their participation in the creation of the central depository's product policy.

Will the transformation of the Center into a central depository be accompanied by extraordinary costs? If yes, can you specify which areas this will concern?

The transformation of the Center into a central depository will bring certain costs, which at the moment we are in the process of quantifying. However, we are not expecting a huge growth in expenses, because from the aspect of hardware, capacity and technical progress, the Center is already one of the best in Slovakia. We foresee additional costs in the software field. There will, however, concurrently occur a reduction in expenses due to the gradual closure of sub-branches, ten of which we have at present, since on the basis of member access to the central depository these will become redundant.

Thank you for the interview. Alica Polonyiova