

# Financial Market Supervision Report ——— 2022



Czech National Bank ——— Financial Market Supervision Report ——— 2022

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# Foreword

Dear Readers,

I am pleased to present our regular Financial Market Supervision Report. In this publication, we inform the public on how the CNB fulfilled its statutory mandate to supervise the financial market in the Czech Republic in 2022.

Our world has been exposed to exceptionally high levels of uncertainty and negative external effects, not only due to Russia's aggression in Ukraine, but also the persisting consequences of the Covid-19 pandemic and the disruption to global trade, the energy crisis, increased inflation rates and the overall increase in geopolitical tensions. Financial institutions facing the associated risks are also exposed to this adverse economic situation. When performing financial market supervision, the CNB thus paid increased attention to the preparedness of supervised entities for such risks and proactively took the necessary measures to ensure financial stability and the sound operation of the domestic financial market. As a result, the CNB is not limited in its conduct of monetary policy by financial stability considerations.



One of the consequences of Russia's attack on Ukraine was the liquidity crisis affecting Sberbank CZ, a.s. and its subsequent failure. The CNB initially responded by introducing a preliminary measure preventing the bank from providing new loans and accepting deposits, among other things. It subsequently revoked the bank's licence. However, this was a very specific and isolated case caused by external geopolitical developments, and it did not affect the financial stability of the Czech banking sector. The banking sector as a whole remains resilient, sound and sufficiently capitalised and liquid. I am also happy to say that the resolution of Sberbank CZ, a.s. demonstrated the configuration functionality of all the relevant processes, including the seamless payment of compensation for insured deposits. In addition, there were no aftershocks and the negative impacts on its clients and other financial market entities were minimised.

A whole range of international sanctions were adopted after Russia's invasion of Ukraine. The imposition of sanctions at both the national and international level was one of the key topics for supervised financial institutions and for the CNB in 2022. The implementation of sanctions is also directly linked with combating money laundering and the financing of terrorism, long one of the CNB's high priorities. The events of the past year have again demonstrated the importance for financial institutions of having a robust governance system and taking effective preventive measures in this area to maintain the resilience of the financial system.

In particular, the report sets out the significant supervisory and regulatory measures and other steps taken by the CNB in the context of the events of 2022. You will be familiarised not only with the main supervisory work of regulated financial market entities, but also with consumer protection activities, licensing, approval and authorisation activities, the issuance of guidance for supervised entities, and the imposition of remedial measures and penalties. The publication also contains an overview of major changes in Czech and EU financial market legislation and an outline of the CNB's activities in the area of international cooperation with financial market regulatory and supervisory authorities.

I wish to assure the public that the CNB will continue to conduct supervision with maximum responsibility to maintain financial stability and safeguard the sound operation of the domestic financial market. In addition, the Bank Board is ready to react promptly to future developments and adopt appropriate supervisory measures.

**On behalf of the Czech National Bank**

A handwritten signature in blue ink, appearing to read 'Jan Procházka'. The signature is fluid and cursive, written over a light blue horizontal line.

**Jan Procházka**

Bank Board Member

# Introduction

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## CORE SUPERVISORY ACTIVITIES IN 2022

The CNB performs the role of integrated financial market supervisory authority in the Czech Republic based on the powers conferred on it by Act No. 6/1993 Coll., on the Czech National Bank (hereinafter the “Act on the CNB”). In addition to the conduct of supervision per se, it carried on other activities in this role in the past year. These included licensing, approval and authorisation work, the imposition of penalties and remedial measures where shortcomings had been detected, and activities in the fields of regulation and international cooperation.

As a result of the war in Ukraine and its impact on the global economy, the Czech financial market and its individual sectors have been exposed in the recent past to unprecedented external effects and risks stemming from uncertainty regarding future inflation, interest rates and economic growth. The CNB had to adequately reflect the new reality and risks in financial market supervision. Its **core activities in 2022** included in particular:

- **Revoking the licence of Sberbank CZ, a.s.** This bank recorded an unprecedented liquidity outflow (run on the bank) on Friday, 25 February 2022. In accordance with the Recovery and Resolution Act and in view of the fact that Sberbank CZ, a.s., was no longer able to meet its obligations, the CNB assessed whether resolution should be applied in the public interest. The CNB also assessed whether alternative measures were available at the time of failure which could have prevented the bank’s failure within a reasonable timeframe. In accordance with the Act on Banks, as not all the statutory conditions for the application of resolution measures had been met, the CNB opened proceedings against the bank to revoke its licence on 28 February 2022, while at the same time prohibiting it from providing new loans and taking deposits, and restricting it from disposing of its assets. At the same time, it sent the Financial Market Guarantee System notification of the inability of Sberbank CZ, a.s., to meet its obligations and then started to pay compensation for insured deposits within the statutory period of seven days. The administrative proceedings were closed on 14 April 2022 with the CNB’s decision to revoke the bank’s licence. This decision entered into force on 30 April 2022, and Sberbank CZ, a.s., went into liquidation on 2 May 2022. The Municipal Court in Prague declared Sberbank CZ, a.s. v likvidaci bankrupt on 26 August 2022. On 4 April 2023, the loan portfolio of Sberbank CZ, a.s. v likvidaci was sold under insolvency proceedings to Česká spořitelna a.s.<sup>1</sup>
- In the area of **supervision of credit institutions**, the CNB focused mainly on individual banks and credit unions’ credit portfolio quality, capital adequacy and provisioning, changes in credit standards and the approach to risk, and thus the profitability and viability of their business models. In March 2022, following Russia’s aggression in Ukraine and the subsequent proceedings to revoke Sberbank CZ’s licence, there was a temporary increase in cash withdrawals and a run on part of the deposits at some banks in the Czech Republic. In this context, the CNB expeditiously introduced extraordinary daily monitoring of the liquidity of individual banks and credit unions and regularly discussed their situation with individual institutions. However, the situation stabilised after about two weeks, thanks in part to communication with the public by the CNB and the Czech Banking Association. In the months ahead, supervision was focused mainly on the possible indirect impacts of the war in Ukraine and the current economic developments on the performance of individual banks.
- Owing to an increase in cyber risks due to an escalation in the geopolitical situation, the CNB focused on supporting the **cyber resilience of credit institutions** and the financial sector as a whole. In this context, the CNB prioritised, for example, the ability of credit institutions to manage cyber risks associated with the use of third-party services, including contingency planning for cyber-attacks and the failure of key IT suppliers.
- As regards credit institutions’ **conduct of business and consumer protection**, the CNB also dealt with the failure of Sberbank CZ, a.s. In this context, the CNB mainly ensured the provision of information to clients regarding the bank’s services following its failure and how clients should proceed in typical situations. It also verified the settlement of some client transactions in the critical period and aided the

<sup>1</sup> Further information on Sberbank CZ, a.s. is available in the CNB’s 2022 Annual Report.

process of transferring investment instruments owned by clients to other investment service providers through communication with foreign supervisors. As part of its day-to-day work, the CNB focused on checking compliance with the duties associated with maintaining payment accounts for consumers arising from both EU legislation (in particular the sending of information reports on currency conversion fees for card transactions and the configuration of a basic payment account) and under national legislation. As regards investment services, the CNB also assessed product governance, including informing the public about related transaction costs and fees.

- CNB supervision in the **insurance sector** continued to focus on evaluating the risk profiles of supervised insurance companies and changes thereto, their financial condition and solvency situation and assessing compliance with governance system requirements. It focused on the risk management of insurance companies' information systems and information technology and compliance with the requirements for regulatory reporting and information disclosure. In the context of the fading coronavirus pandemic and especially given the new geopolitical and macroeconomic risks, the CNB closely monitored and assessed the impacts of these risks on the insurance sector.
- As regards **conduct of business and consumer protection in the insurance sector**, the CNB paid increased attention to market developments affected to a large extent by technological innovation and digitalisation in general. Given the potential impact on the quality of services provided to consumers, this trend places increased demands on the management and reduction of risks in the areas of conduct of business and consumer protection. The supervisory work focused on the gradually increasing demands on product governance and the new European legislation on sustainable finance. The CNB also significantly incorporated into its supervisory work numerous activities covered by the European Insurance and Occupational Pensions Authority (EIOPA).
- In its supervision of **PMCs and funds**, the CNB monitored compliance with statutory regulations and assessed PMCs' capital positions and capital management associated with compliance with the capital adequacy requirements. In this context, the impacts of key interest rates on PMCs' capitalisation, profitability and overall activities were assessed.
- As regards **investment firms**, the CNB continued to focus mainly on adapting supervisory procedures to the new prudential regulation of this sector (IFD/IFR) as part of its off-site surveillance. The supervisory review and evaluation process (SREP), which provides the basis for determining the risk profiles of individual investment firms, was also amended. The CNB also examined compliance with the rules for the conduct of business, especially the rules of conduct towards clients under MiFID II, and conducted several thematic surveys. As regards the convergence of supervisory practices of European supervisory authorities, the CNB participated in a joint survey on information about transaction costs and fees organised by the European supervisory authority (ESMA).
- In its supervision of **management companies and investment funds**, the CNB focused on monitoring the impacts of Russia's invasion of Ukraine on the fund sector, the valuation of investment funds' assets, the reporting of financial instruments in accordance with international accounting standards (IFRS) and the provision of information on them in the notes to the financial statements of supervised entities. The CNB also dealt with the adaptation of the sector to the duty to make sustainability-related disclosures in the financial services sector.
- As regards **non-bank payment service providers**, the CNB focused mainly on managing operational and security risks associated with increasing use of information and communication technology. It also focused on compliance with information duties by payment service providers vis-à-vis service users, protection of payment service users' funds and the configuration of, and compliance with, preventive measures against money laundering and terrorist financing (AML/CFT).
- The CNB's examinations focusing on companies providing consumer credit secured by property were completed in the **consumer credit providers** segment. According to a pre-defined annual supervisory



plan, the CNB conducted thematic surveys in this segment, focusing, among other things, on the possibility of deferring borrower's repayments and setting credit institutions' debt recovery procedures.

- For the first time last year, **retail distributors** fulfilled the new reporting duty to the CNB. Further to the data provided, the CNB conducted thematic surveys focusing mainly on compliance with the duty to have proper professional liability insurance or verification of the reported level of production for 2021. The CNB also focused on checking compliance with the conditions for professional qualifications. The CNB issued a supervisory benchmark regarding the obligation of insurance distributors in the area of product supervision and governance.
- In its supervision of **bureaux de change**, supervision was focused mainly on examining the systemic configuration of, and compliance with, preventive measures against money laundering and terrorist financing and on verifying the trustworthiness of the managers and actual owners of bureaux de change.
- CNB supervision of **accredited entities** continued to verify compliance with the requirements in organising professional examinations and follow-up training programmes to enhance professional qualifications for insurance distribution.
- **The CNB's AML/CFT supervision** was significantly affected in 2022 by European sanctions against Russia and Belarus, whose effective implementation by financial institutions was a priority for the CNB. To this end, the CNB issued, among other things, an updated supervisory benchmark regarding the requirements for selected procedures for the imposition of international sanctions. It also continued to expand the range of supervisory tools relating to the area of AML/CFT. For the first time, it received and assessed reports from external auditors assessing the quality of selected credit institutions' governance systems in this area. Following the results of the assessment, the CNB then addressed enhancing the effectiveness of their preventive measures with the institutions concerned.
- In connection with the Czech Presidency of the EU Council, the CNB held a **meeting of the Board of Supervisors** of the European Banking Authority (EBA) and the Board of Supervisors of the European Securities and Markets Authority (ESMA) in Prague last year. Executive Director of the CNB's Financial Regulation and International Cooperation Department and the CNB-appointed member of the ESMA Board of Supervisors Vojtěch Belling was elected Vice Chair of the ESMA at the November meeting.



# Part A — Financial market supervision

## I. BRIEF OVERVIEW OF THE FINANCIAL MARKET IN 2022<sup>2</sup>

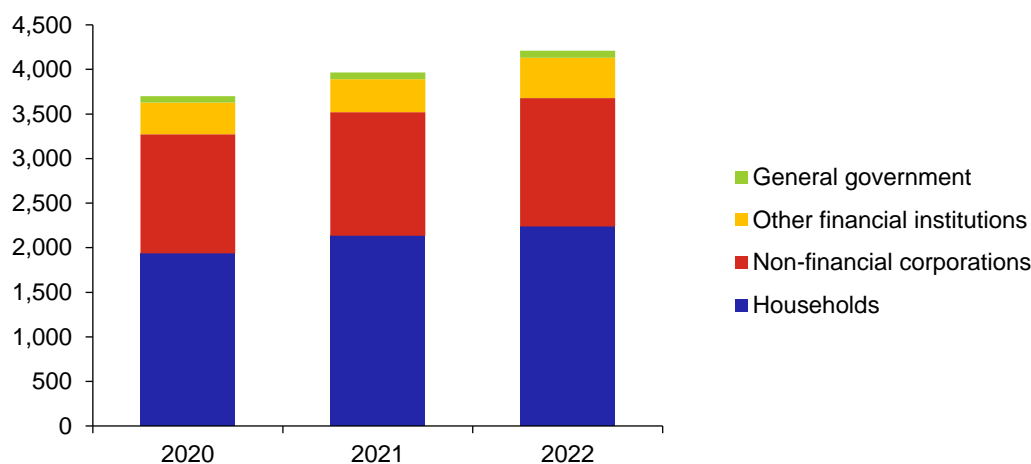
### Client loans rose year on year, albeit at a slightly slower pace than in the previous year

The banking sector's total assets rose by 4.5% year on year to CZK 8,906.6 billion at the end of 2022. This rise was reflected in an increase of CZK 155 billion in debt securities at amortised cost. The volume of financial assets held for trading also rose by CZK 93.2 billion. The total value of the largest items of bank assets, loans and receivables (net of provisions) fell by 0.2% year on year to CZK 6,312.9 billion.

The total stock client loans<sup>3</sup> grew by 6.1% to CZK 4,209.0 billion compared to the end of 2021. This represented a year-on-year decrease in growth in total client loans of 1.1 pp. This increase was due mainly to a year-on-year change in loans to households of CZK 102.8 billion (up by 4.8%). The stock of loans to other financial institutions also increased (up by CZK 79.0 billion or 21.2%). Loans to non-financial corporations also increased slightly. Their total value rose by CZK 56.5 billion (4.1%).

#### Chart A.1 Selected client loan aggregates

(in CZK billions; as of end of year)



### The ratio of non-performing loans declined further

The ratio of NPLs to total client loans gradually decreased last year, reaching 1.9% at the year-end (down by 0.5 pp year on year). The volume of non-performing client loans (at gross value, i.e. excluding allowances) decreased by 14.7% to CZK 83.0 billion. A decline in the overall ratio of non-performing loans was recorded for both loans to non-financial corporations (by 0.8 pp to 3.5%) and loans to households (by 0.3 pp to 1.3%). The total value of financial instruments<sup>4</sup> in Stage 2 increased by CZK 226.7 billion to CZK 670.6 billion.

### In 2022, the volume of deposits increased, especially time deposits

In 2022, the banking sector's total liabilities rose by 4.9% to CZK 8,201.2 billion. Their long-term main component, client deposits,<sup>5</sup> recorded year-on-year growth of 6.5%, reaching CZK 6,028.9 billion at the end of the year. The absolute growth in deposits was driven mainly by households, where deposits rose by CZK 138.2 billion to CZK 3,649 billion, and other financial institutions, where deposits increased by CZK 106.1 billion to CZK 460.2 billion. A strong relative increase was recorded for general government deposits, which rose by 21.4% to CZK 413 billion, while deposits of non-financial corporations increased only slightly (by 3.5% to CZK 1,506.7 billion). As a result of an increase in interest rates, the volume of time deposits

<sup>2</sup> The source of data for banks, insurance companies, pension management companies and fund investment are data from supervisory statements available on the basis of the CNB's decrees on the submission of statements for the relevant financial sector. The data are available to the public in the [ARAD](#) database under *Basic indicators of the financial market*. The data for the securities market sector are sourced from the statistics of the Prague Stock Exchange, a.s., and RM-System, a.s.

<sup>3</sup> Client loans represent loans to and receivables from general government, households, non-financial corporations and other financial institutions.

<sup>4</sup> Instruments with a significant increase in credit risk since their initial recognition but are not credit-impaired.

<sup>5</sup> Client deposits are deposits accepted from general government, households, non-financial corporations and other financial institutions.

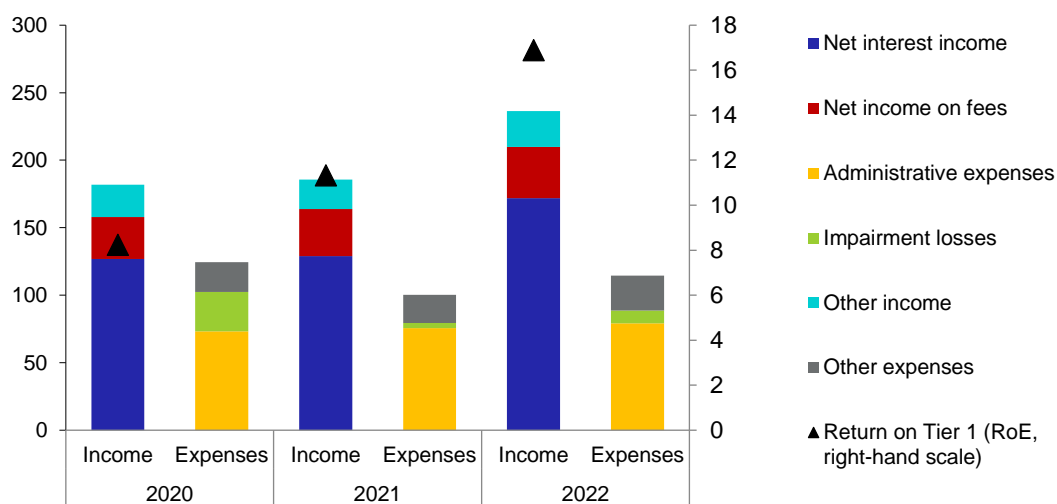
and deposits redeemable at notice increased by 46.6% to CZK 1,810.6 billion in aggregate terms. Conversely, client deposits on current accounts fell by 7.1% to CZK 4,044.7 billion. The banking sector's aggregate equity was CZK 705.4 billion at the end of 2022, a year-on-year increase of 0.5%.

### Growth in interest rates significantly increased the profit and profitability of the banking sector

The banking sector recorded total after-tax profits of CZK 102.5 billion in 2022, up by around CZK 32.1 billion on a year earlier. This increase was due mainly to a rise in net interest income of CZK 43 billion. This was due largely to year-on-year growth in interest rates. The increase in profit was also fostered by an increase in fees and commissions of CZK 3.2 billion, due mainly to more frequent provision of card payments and foreign currency transactions. By contrast, impairment losses rose in year-on-year terms by CZK 5.5 billion to CZK 9.4 billion and administrative expenses by CZK 3.8 billion to CZK 79.3 billion. The significant increase in operating profit was reflected, among other things, in an increase in profitability indicators. The ratio of net profit to Tier 1 capital (RoE) amounted to 16.9% at the end of 2022, a year-on-year increase of 5.6 pp. Return on assets (RoA) rose by 0.3 pp to 1.1% in the same period.

### Chart A.2 Structure of income and expenses

(CZK billions)



### The liquidity position of the banking sector remained very good

Overall, the banking sector maintained long-term resilience to potential liquidity shocks in 2022. The aggregate liquidity coverage ratio (LCR) for the banking sector rose by 12.3 pp year on year to 184.5%. The banking entity with the lowest value had an LCR of 140%, which adequately meets the requirements of the Basel III regulatory framework. The share of client deposits in total client loans was 143.2%, up by 0.5 pp on a year earlier. The ratio of quick assets to total assets in the banking sector declined by 2.3 pp to 38.6% owing to a decrease in quick assets, especially deposits with central banks.

### Despite a slight decline, domestic banks' capital ratios remain solid

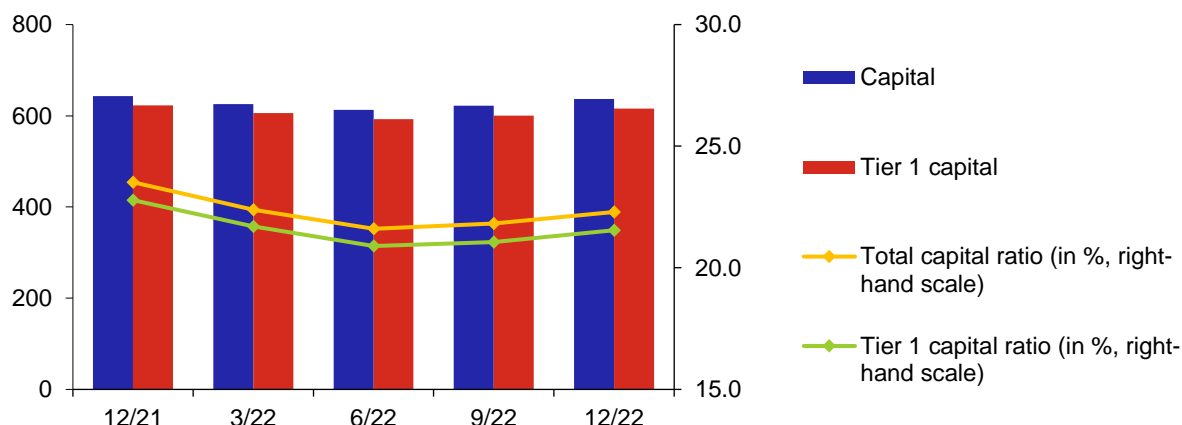
The regulatory capital of the domestic banking sector<sup>6</sup> fell slightly (by 0.9%) to CZK 637 billion, high-quality Tier 1 capital (96.6%) being the dominant component. The total capital ratio of the domestic banking sector<sup>7</sup> decreased by 1.2 pp year on year to 22.3%. The decrease in the capital ratio was due to both the aforementioned decline in banks' regulatory capital and a 4.5% increase in risk-weighted exposures. The leverage ratio expressed as the ratio of Tier 1 capital to total loans and receivables was 7.1% as of the end of 2022, indicating a year-on-year decrease of 0.2 percentage point.

<sup>6</sup> In this case, foreign bank branches operating in the Czech Republic are excluded from the Czech banking sector, as the risks to their business activities are covered by the regulatory capital of their head offices. The assessment of capital adequacy falls to the competent foreign supervisory authority.

<sup>7</sup> The capital ratio is defined as the ratio of the relevant capital to total risk exposures in per cent.

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

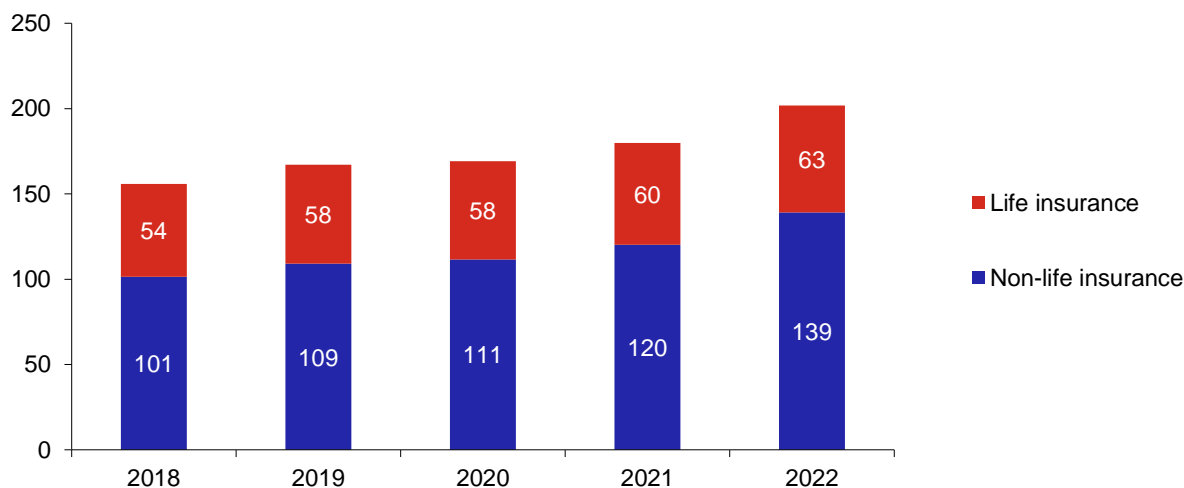
(left-hand scale in CZK billions; right-hand scale in %)

**Gross premiums written rose in the insurance sector**

Gross premiums written rose by 12.2% year on year to CZK 201.7 billion at the end of 2022. Premiums written in non-life insurance recorded more dynamic growth of 15.7% to CZK 139.1 billion, while gross premiums written in life insurance rose by 5.1% to CZK 62.6 billion. The share of gross premiums written in non-life insurance thus rose by 2.1 pp to 69% of total gross premiums written. Growth in the share of non-life insurance accelerated year on year compared with previous years. This was due, among other things, to an increase in the insured amounts of existing non-life insurance policies in response to the tornado in Moravia in 2021.

**Chart A.4 Gross premiums written**

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

**Insurance companies' investments decreased significantly**

In 2022, total investments of insurance companies fell markedly, amounting to CZK 284.6 billion at the year-end (a year-on-year decline of 9.4%). A decline in the valuation of bonds due to an increase in interest rates had a significant effect. The share of investments in debt securities in total investments fell by 4.9 pp year on year to 71.3%, but it was still the main investment item. Insurance companies' investments were also made up of participating interests (9.5%), shares and other variable-yield securities (8.6%) and deposits with financial institutions (4.5%).

### Insurance sector profit declined

The net profit of the domestic insurance sector (including branches of foreign insurance undertakings) fell by 40.7% year on year to CZK 16.2 billion. A negative trend was recorded both for the technical account for non-life insurance (down by 37% year on year to CZK 9.5 billion) and the technical account for life insurance (down by 35.4% year on year to CZK 9.5 billion). The decline in life insurance stemmed primarily from a negative investment result linked mainly with the repricing of bond holdings in an environment of rising interest rates. In the case of non-life insurance, it was affected by an increase in claim frequency compared to 2021. In year-on-year terms, it is also important to take into account that the total profit for 2021 was affected by two extraordinary one-off operations relating to a change in the corporate structure of the two most important domestic insurance companies.<sup>8</sup> Adjusted for these one-off operations, net profit fell by 7.6% year on year. The year-on-year decline in net profit was also reflected in the sector's indicators of profitability. Return on equity (RoE) fell by 13.5 pp year on year to 23.4%. Return on assets (RoA) declined by 2.2 pp year on year to 3.7%.

### Insurance sector remained sufficiently capitalised

In 2022, domestic insurance companies maintained their capital positions and were sufficiently capitalised in terms of the Solvency II capital requirements. None of the supervised domestic insurance companies reported a ratio of eligible own funds to the solvency capital requirement (SCR) of less than 100%. At the end of 2022, the median ratio of eligible own funds to the SCR was 197%, up by 1 percentage point on the previous year.

### The number of planholders in the third pension pillar fell and the volume of one-off settlements rose exceptionally

Pension management company funds were managing assets totalling CZK 599.9 billion at the end of 2022, up by 4.4% (CZK 25.2 billion) on a year earlier. The growth in assets was driven by a net inflow of contributions to participation funds totalling CZK 24.2 billion. Conversely, in the case of transformed funds, funds paid exceeded contributions received by CZK 4.6 billion. The number of pension scheme planholders decreased by 209,600 to 2.75 million, while the number of planholders with supplementary pension savings schemes increased by 172,600 (to 1.64 million). The total number of planholders in the third pension pillar thus fell by 37,100 year on year to 4.39 million planholders. The slight decline in growth in the assets of pension management company funds was also due to a year-on-year rise in one-off settlements of CZK 12.4 billion. Pension management companies recorded a net after-tax profit of CZK 2.1 billion in 2022, representing a year-on-year increase of 5.2%. The ratio of total capital to the specified capital requirements increased by 13.4 pp to 268.2% due to a top-up of PMCs' capital by shareholders.

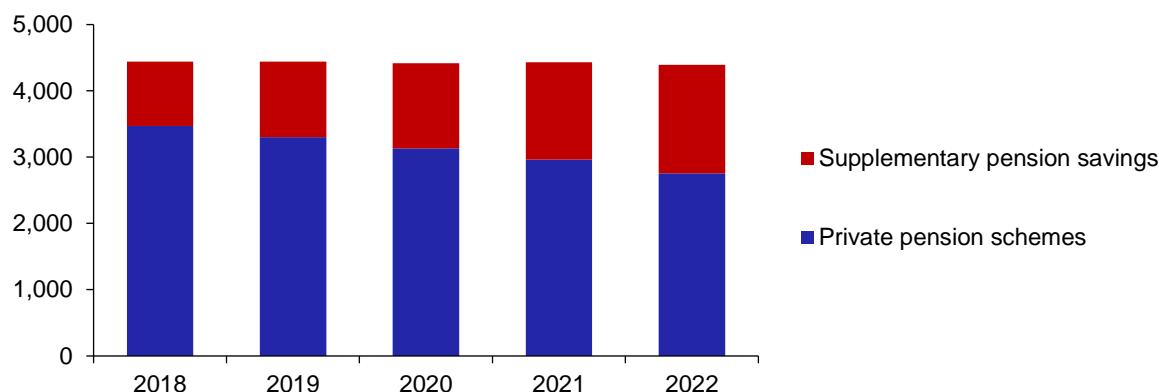
### Pension fund portfolios saw no major changes

The decline in private pension scheme planholders was also reflected in a decrease in the share of assets managed in transformed funds. At the end of 2022, assets allocated in transformed funds accounted for 79.6% of funds, down by 2.5 percentage points on the end of 2021. The funds in transformed funds were invested in government bonds (79.9%), receivables from banks (11.5%) and other bonds (7.3%) without major year-on-year changes in their structure. Larger, but still limited, changes in the portfolio structure have occurred in the participation funds segment, which is allowing greater flexibility in portfolio diversification by law. The share of government bonds in these funds fell by 4.2 pp year on year to 40.3%. This was offset by a rise in claims on banks of 2.2 pp to 22.3% and a rise in shares and unit certificates of 0.8 pp to 14.2% and 13.4% respectively. Participation funds recorded negative returns on assets of 4.3% on average and a 0.2% impairment of obligatory conservative funds. Other participation funds recorded a 6.2% impairment in the same period.

<sup>8</sup> To simplify its corporate structure, Generali Česká pojišťovna recorded the price of CP Strategic Investments N.V. (the sole shareholder of Generali penzijní společnost) in connection with its sale within the group in its accounts. Kooperativa pojišťovna recorded the price of Česká podnikatelská pojišťovna in connection with its sale to its Austrian parent company VIG holding, resulting in a change from an indirect holding to a direct holding, in its accounts.

**Chart A.5 Number of planholders in the third pension pillar**

(in thousands; as of end of year)

**Domestic collective investment funds saw an increase in their assets**

The assets of domestic collective investment funds totalled CZK 564.5 billion at the end of 2022. The net assets value (NAV), i.e. the value of assets net of liabilities, was CZK 552.4 billion. The value of total assets rose by 15.4% (75.5 billion) year on year. This was due to a net inflow of funds totalling CZK 95 billion. The funds' investment assets consisted mainly of bonds (24%), shares and units (22.9%), other financial instruments (19.1%), unit certificates (13.7%) and deposits (9.4%). The remaining share of the portfolio was made up of loans and receivables (5.6%), exchange-traded funds (3.1%), financial derivatives (1.6%) and other non-financial assets (0.6%). The after-tax aggregate net profit of management companies amounted to CZK 1.9 billion, a year-on-year increase of 18.1%. Contributions managed in funds for qualified investors rose by 22.1% year on year, totalling CZK 431.6 billion.

**Exchange trading in securities on the PSE increased**

Following a rise in valuations on the Czech stock market in 2021, the values of the Prague indices fell year on year. The PX index fell by 15.7% year on year to 1,201.7 points, while the RM index fell by 33.6% to 410.2 points. The PX index recorded its deepest decline on 7 March, i.e. almost two weeks after the start of Russia's invasion of Ukraine, falling by 5.8%. The index reached its best-performing day (+ 5.1%) on 4 October in connection with the announcement of an extraordinary dividend payment of one listed entity. The market price drop also negatively affected the market capitalisation of the Prime Market, which declined by 24.4% to CZK 983.3 billion despite the number of traded issues staying unchanged. The ratio of total PSE market capitalisation – except for the Free market, consisting of foreign issues offered as dual listing – to nominal GDP was 15.3% at the end of the year. Despite a decrease in market capitalisation, annual trading on the largest Czech exchange rose by 18.3% year on year to CZK 166.2 billion. Transactions on the Prime Market accounted for 96.1% of the total trading volume, making up the dominant share of trade. The rest of the volume was traded on the Free (2.1%), Standard (1.6%) and START (0.1%) markets.

## II. REGULATORY FRAMEWORK

### II.1 SELECTED REGULATORY CHANGES IN THE EU IN 2022

In 2022, as in previous years, new rules in the area of financial market regulation were prepared at the EU level. This work included in particular the preparation of directives and regulations of the European Parliament and of the Council and implementing regulations of the European Commission (hereinafter the Commission). When discussing legislative proposals, the CNB worked closely with the Ministry of Finance on the formulation of the Czech Republic's positions and the preparation of instructions for Czech representatives at the meetings of EU Council working groups, which are also attended by CNB representatives as observers in some cases. During the Czech Presidency of the EU Council in the second half of the year, CNB experts took part in the negotiations on some legislative proposals in the area of financial market regulation by agreement with the Ministry of Finance. They were involved, among other things, in preparing background documents for trialogues between the Commission, the Council and the European Parliament and working group meetings and in consolidating the outputs from those meetings. CNB representatives were also actively involved in the regulatory work of the European Supervisory Authorities.

#### Major legislative changes in the EU in 2022

##### ***DLT pilot regime regulation***

Regulation (EU) 2022/858 on a pilot regime for market infrastructures based on distributed ledger technology (the DLT pilot regulation) was issued in May 2022 and contains a specific licensing regime for DLT market infrastructures. Licensed investment firms, regulated market operators or central securities depositories may obtain equivalent licences or one may be granted to a new entity. The directive on markets in financial instruments (MiFID II), which will be transposed into the Capital Market Undertakings Act (AoCMU) is being amended at the same time as the adoption of the regulation. The amendment includes the addition of a provision confirming that investment instruments as listed in the AoCMU are also investment instruments issued using DLT.

##### ***Commission implementing regulation for the regulation on sustainability-related disclosures in the financial services sector (SFDR)***

In August 2022, Commission Implementing Regulation (EU) 2022/1288 entered into force with the regulatory technical standards to be used by financial market participants and financial advisers to fulfil some of the information duties prescribed by Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector (SFDR). Compliance with the Regulation should contribute to improving the quality and comparability of sustainability-related disclosures provided to investors and reduce the scope for greenwashing. This implementing regulation sets rules for the disclosure of information on the taking into account of principal adverse impacts of investments on the environment and society. It further specifies the rules on the content, methodology and presentation of sustainability-related information which must be disclosed on financial products with a certain sustainability ambition, in the pre-contractual phase, in periodic reports and on the website. The implementing regulation also includes an adaptation of the rules on mandatory disclosure obligations for the alignment of investment portfolios of financial products with the EU taxonomy for environmentally sustainable economic activities. The regulation is effective from 01 January 2023.

##### ***Regulation on digital operational resilience for the financial sector (DORA)***

In December 2022, Regulation (EU) 2022/2554 on digital operational resilience for the financial sector (DORA) was published in the Official Journal. The regulation harmonises key operational digital resilience requirements for most regulated financial market entities. It aims to enhance the performance and stability of the financial system and contribute to ensuring a high level of investor and consumer protection in the EU. The CNB performs supervision of compliance with the obligations laid down in this regulation in the Czech Republic. However, the Regulation also introduces a new supervisory framework for ICT third-party service providers which are critical ICT service providers for financial market entities. The regulation establishes the supervisory powers of the European Supervisory Authorities (EBA, EIOPA and ESMA) vis-à-vis these providers.



Directive (EU) 2022/2556 amending selected sectoral directives as regards digital operational resilience for the financial sector has been published alongside DORA. The aim of this amending directive is to align the current ICT risk management requirements for the financial sector with the DORA Regulation.

Directive (EU) 2022/2555 on measures for a high common level of cyber security across the Union (NIS2) and Directive (EU) 2022/2557 on the resilience of critical entities (CER) were also published at the same time.<sup>9</sup> As regards financial entities, the DORA Regulation in relation to both Directives is considered a sectoral EU legal act, and the provisions of the aforementioned Directives which will be recognised by Member States as equivalent to the provisions of DORA should not apply to financial entities to avoid duplication of obligations and unnecessary burden on entities.

### ***Two implementing regulations for applications for authorisation to operate as a credit institution***

In December 2022, Commission Delegated Regulation (EU) 2022/2580 supplementing Directive 2013/36/EU of the European Parliament and of the Council with regard to regulatory technical standards specifying the information to be provided in an application for authorisation to operate as a credit institution and specifying the obstacles that may prevent the effective exercise of the supervisory functions of competent authorities was issued. It was issued along with Commission Implementing Regulation (EU) 2022/2581 laying down implementing technical standards for the application of Directive 2013/36/EU of the European Parliament and of the Council with regard to the provision of information in applications for authorisation to operate as a credit institution. The first regulation sets out the information to be contained in an application for authorisation to perform the activities of a credit institution; the second contains templates for applications for authorisation. Both regulations will be applicable as of 18 July 2023, thus replacing the previous provisions in Decree No. 355/2020 Coll., on applications and certain information pursuant to the Act on Banks and the Act on Credit Unions.

### Selected directives and regulations under preparation in the EU in 2022

#### ***Legislative package under the Capital Markets Union (CMU) project proposed in December 2022***

In December 2022, the Commission published further legislative proposals concerning the capital markets union aimed at integrating and supporting capital markets in the EU. They regulate the areas of clearing, insolvency of corporations and listed issuers. The proposals on clearing respond mainly to the fact that a substantial part of derivatives settlement through central counterparties takes place in London, i.e. outside the EU after Brexit. The proposed set of measures is therefore aimed at making clearing located in the EU more attractive. The proposal for a directive on insolvency further harmonises certain insolvency rules. However, it will not apply to most financial institutions or to natural persons who do not carry on business activities. In the area of listed issuers (Listing Act), the submitted proposals include a new draft directive on multiple-vote right shares for issuers seeking admission of their shares to trading on the market for the growth of small and medium-sized enterprises, minor amendments to the Markets in Financial Instruments Directive (MiFID II) and the Markets in Financial Instruments Regulation (MiFIR), the repeal of the Listing Directive, an amendment to the Prospectus Regulation and an amendment to the Market Abuse Regulation.

#### ***Revisions to the CRD/CRR European prudential framework (the “2021 banking package”)***

The discussions on the draft amendments to Directive 2013/36/EU and Regulation (EU) 575/2013, issued by the Commission in October 2021 and referred to as CRD VI and CRR III, continued into 2022. The proposals are intended to strengthen financial stability while preserving the smooth financing of the economy in the context of the recovery following the coronavirus crisis. The CNB in cooperation with the Ministry of Finance was actively involved in the ongoing European legislative process. There was enhanced cooperation during the Czech Presidency of the Council, during which time the CNB assisted the Ministry of Finance with its expert opinion in incorporating Member States' suggestions on compromise proposals. The discussions in the Council were successfully concluded at the end of 2022 by an agreement on a general approach. The legislative process will continue in trilogues in 2023.

<sup>9</sup> Cross-sectoral laws forming a horizontal Union framework aimed at strengthening the resilience of entities in the internal market, in particular those providing essential services in key sectors. NIS2 establishes minimum harmonised rules and dedicated cyber security support and supervision measures in the EU, and the CER Directive on the security of critical infrastructures for non-cyber threats.

***The review of the European Solvency II regulatory framework and the proposed framework for the recovery and resolution of insurance and reinsurance companies***

The discussion of a draft compromise text of the revised directive amending Directive 2009/138/EC on the taking-up and pursuit of the business of insurance and reinsurance (Solvency II), as well as of a draft directive establishing a framework for the recovery and resolution of insurance and reinsurance companies (IRR) continued into 2022. This involved a comprehensive review of the Solvency II regulatory regime covering each of its three pillars, i.e. quantitative and qualitative requirements, reporting and information disclosure. The Council agreed on a general approach on the review of Solvency II in June 2022.

The draft framework for the recovery and resolution of insurance and reinsurance companies aims to better prepare supervised entities and competent supervisory authorities to address possible failures in the insurance sector and to mitigate their consequences. The draft is conceptually based on the directive governing the framework for the recovery and resolution of credit institutions and investment firms. It proposes to regulate recovery and resolution planning, resolvability barriers, preventive measures and resolution itself, including its conditions, instruments and powers. The general approach was adopted by the Council in December 2022.

***Legislative package reviewing the prevention of money laundering and terrorist financing (AML/CFT)***

Negotiations on the package of four legislative proposals governing AML/CFT continued. Most progress was made on an amendment to the regulation that will extend the reporting duties related to transfers of funds to crypto-asset transactions as well. There was a substantive agreement among EU legislators on the final version of the regulation. Discussions continued on the proposal for a new directive and regulation governing anti-money laundering rules (AMLAR) and on the proposal to establish an EU AML supervisory authority (AMLA).

The AMLAR contain a definition of the set of obliged entities, duties for client identification and vetting, requirements for beneficial owners, and rules on data protection and storage. The proposal for a new AML Directive addresses the requirements for central registers of accounts, beneficial owners and real estate, the issue of identifying and managing AML/CFT risks, and the tasks of financial intelligence units and supervisory authorities and cooperation between the two. The Council's general approach for negotiations with the European Parliament on the proposal for a new directive and regulation was adopted at the end of 2022. No agreement was reached at Council level on the draft regulation establishing the AMLA and discussions will continue into 2023.

***Proposal for a directive on consumer credit***

In December 2022, a preliminary political agreement was reached on a new directive on consumer credit, which repeals and replaces the existing Directive 2008/48/EC on credit agreements for consumers. The new directive aims to modernise and strengthen consumer protection at the European level, as well as to respond to digitalisation in financial services. On the basis of a preliminary political agreement, new rules on the assessment of creditworthiness (the creditor may not grant credit to the consumer if the result of the creditworthiness assessment is negative), forbearance to consumers in default and measures against excessive credit prices can also be expected.

***Amendment to the directive on financial services contracts concluded at a distance***

In May 2022, the Commission published a proposal for a directive amending Directive 2011/83/EU with regard to financial services contracts concluded at a distance and repealing Directive 2002/65/EC. The directive is being updated 20 years after its adoption to reflect both European legislation and the technological progress since then. The directive will continue to serve only as a backstop in cases where sector-specific rules do not cover emerging financial products and innovative ways of distributing them to consumers. There will be a shift from minimum to full harmonisation. The main provisions of the amendment remain the provider's obligations regarding pre-contractual information and the consumer's right of withdrawal from a contract (it newly proposes, for example, a special withdrawal button available in the same electronic interface in which the contract was concluded). A new element is the rule on adequate explanations, which is already known from several other sectoral regulations.

**Proposal for a regulation on markets in crypto-assets**

In 2022, the debate on the proposal for a regulation on markets in crypto-assets (MiCA) was completed at the political level. The regulation sets out the rules for crypto-asset-related service providers and for crypto-asset issuers regarding, inter alia, their legal form, disclosure, governance arrangements and capital requirements.

**Proposal for a regulation on harmonised rules on artificial intelligence**

Last year saw a continuation of the debate on the proposal for a regulation laying down harmonised rules on artificial intelligence (Artificial Intelligence Act, AIA). The AIA sets out, among other things, the rules for systems using artificial intelligence and categorises them into several groups. AI systems which pose a high risk to health and safety or to the fundamental rights of individuals are to be permitted on the European market on condition that they meet certain mandatory requirements. The fact that the draft regulation includes automated systems for assessing the creditworthiness of natural persons in the category of high-risk AI systems and that the AI systems of insurance companies were also added to this category during the negotiations is relevant to the financial market.

**Amendment to the SEPA Regulation and the regulation on cross-border payments in the Union as regards instant credit transfers in euro**

In October 2022, the Commission published a proposal for a regulation amending Regulation (EU) No 260/2012 establishing technical and business requirements for credit transfers and direct debits in euro (SEPA Regulation) and Regulation (EU) 2021/1230 on cross-border payments in the Union as regards instant credit transfers in euro. Under the proposal, banks providing euro credit transfers are also required to offer instant credit transfers in euros. In addition, the proposal introduces price regulation according to which the price of instant payments in euro must not be higher than the price of regular payments in euro. It also introduces requirements to enhance confidence (verification of the name of the payee) and aims to remove obstacles to the processing of instant payments in euro by simplifying sanctions screening. According to the proposal, payment service providers outside the euro area will have a longer deadline for the implementation of instant payments in euro.

## II.2 SELECTED REGULATORY CHANGES IN THE CZECH REPUBLIC IN 2022

In 2022, the CNB was involved in amending the legislation forming the regulatory framework for the financial market in the Czech Republic. These amendments arose primarily from the implementation of EU legislation. In the legislative area, the CNB worked with the Ministry of Finance and other state administration bodies on the preparation of new laws. On the basis of legal authorisation, it issued decrees and explanatory and methodological opinions on the application of regulatory requirements pertaining to financial market entities. This section describes the most important legislative changes in the area of financial market regulation approved or under preparation in 2022.

### Major legislative changes in the Czech Republic in 2022

**Act on the pan-European Personal Pension Product**

The Act on the pan-European Personal Pension Product (PEPP), which aims to adapt Czech law to Regulation (EU) 2019/1238 on a pan-European Personal Pension Product, took effect on 11 May 2022. The law regulates the areas necessary for the functioning of the regulation in practice, in particular the areas within the CNB's competence, infringements, the use of certain discretions and certain rights and obligations of PEPP providers, distributors and participants. The CNB also prepared an implementing decree for this act.

**Act amending certain laws in the financial market area**

Act No. 96/2022 Coll., amending certain laws in the financial market area, especially in connection with the implementation of the EU's legislation relating to the capital markets union, was approved with effect from 29 May 2022. The most important changes introduced by the law include a review of capital requirements for investment firms, harmonisation of the legislation governing covered bonds, a review of the legislation governing cross-border marketing of investment funds, adaptation of the law to EU legislation in the area of sustainable finance and harmonisation of the cross-border provision of crowdfunding services.

**Amendment to the Payment System Act**

An act amending Act No. 370/2017 Coll., on Payments Systems, as amended, and other related acts, took effect on 1 July 2022. In particular, the law responds to an amendment to European Regulation (EU) 2019/518 on cross-border payments in the Union (CBPR2), identifying competent supervisory authorities<sup>10</sup> and defining offences for breaches of the duties imposed therein. The law also eliminates some shortcomings identified in practice. In particular, it modifies the transposition of the directive on payment services in the internal market (PSD2) in respect of liability for unauthorised transactions without strong authentication and better specifies the conditions for non-bank payment service providers' access to bank accounts. The law also tightens the requirements for the licensing of small-scale payment service providers and small-scale electronic money issuers.

**Act on the Register of Beneficial Owners**

Act No. 37/2021 on the Register of Beneficial Owners was amended with effect from 1 October 2022. The amendment is based on the Commission's requirements to modify the definition of beneficial owner so as to achieve greater consistency with Directive (EU) 2015/849 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing.

**Amendment to the Act on Insurance and Financing of State-Subsidised Exports and the related government decrees**

An amendment to Act No. 58/1995 Coll., on Insurance and Financing of State-Subsidised Exports, and Government Decree No. 364/2022 Coll., on the implementation of certain provisions of the Act on Insurance and Financing of State-Subsidised Exports in relation to a guarantee provided as part of state support to the economy in response to Russia's aggression against Ukraine, took effect on 1 December 2022. In particular, the amendment extends EGAP's power to provide guarantees for the repayment of loans to businesses. The government decree specifies the conditions for such guarantees, which constitute an extraordinary measure as part of state support to the economy.

**Amendment to the Consumer Protection Act and the Civil Code**

An amendment to Act No. 634/1992 Coll., on Consumer Protection, and Act No. 89/2012 Coll., the Civil Code, took effect on 7 December 2022. The amendment transposed Directive (EU) 2019/2161 amending Directives 93/13/EEC, 98/6/EC, 2005/29/EC and 2011/83/EU on the better enforcement and modernisation of EU consumer protection legislation into Czech law. The Consumer Protection Act expands the supervisory powers of the CNB. The CNB will supervise the compliance by supervised entities with the prohibition of unfair terms in consumer contracts specified in Article 1814(1) of the Civil Code, the content of which the consumer was unable to influence because they were drawn up in advance (typically form contracts). The amendment took effect on 6 January 2023.

Major legislative changes under preparation in the Czech Republic in 2022**Draft law amending certain laws in connection with the development of the capital market**

As a result of the failure to complete the legislative process in the past parliamentary term, the Ministry of Finance submitted a slightly modified draft law amending certain laws in connection with the development of the capital market for interdepartmental comments. The bill remains the same in its main points, i.e. proposing in particular the introduction of an investment pension account (referred to as an account for long-term investments in the original proposal), which is intended to be another tax-supported form of provision for old age. In the third pillar, it proposes the introduction of an alternative participation pension fund as an alternative to existing funds with dynamic strategies, which can invest in private equity funds, real estate, start-ups, etc. Unlike the original proposal, an amendment to the Act on Management Companies and Investment Funds was not included in the draft law and will be dealt with separately in 2023. The draft also amends the Consumer Credit Act in the section governing early repayment of consumer credit for house purchase. In addition, it proposes some parametric changes to the third pension pillar to make it more attractive including, a change in

<sup>10</sup> The CNB for financial market entities including non-bank ATM operators and the Czech Trade Inspection Authority for retailers.

the calculation of the state contribution. Last but not least, the Ministry of Finance is proposing several new changes to the Act on Bonds.

### **Preparation of the Act on the Market for Non-Performing Loans**

In 2022, the Ministry of Finance started work on the preparation of a law which aims to transpose Directive (EU) 2021/2167 on credit servicers and credit purchasers (the NPL Directive) into Czech law. The directive establishes a harmonised framework for the activities of credit purchasers and credit servicers in relation to loans that are provided by credit institutions and are not duly repaid.

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

The CNB published decrees, official information documents, a series of explanatory opinions, supervisory benchmarks and other supervisory communications on its website. A selection of the most important regulatory documents issued by the CNB in 2022 is given below.<sup>11</sup>

### (a) Decrees

#### **Decree No. 1/2022 Coll., on applications and notifications to perform activities pursuant to the Payment System Act**

The decree was issued on the basis of authorising provisions in the Payment System Act and in response to practical experience with its application, which revealed a need to clarify certain provisions relating to applications for a licence. It also incorporated the EBA guidelines on information provided for the licensing of payment institutions and other entities. The decree took effect on 1 July 2022.

#### **Decree No. 2/2022 Coll., amending Decree No. 7/2018 Coll., on certain conditions of the pursuit of business of payment institutions, payment account information administrators, small-scale payment service providers, electronic money institutions and small-scale electronic money issuers**

The decree responds to the need to clarify the provisions on the governance system, in particular when managing security and operational risks, with a particular focus on ICT risks arising from practical application. The decree took effect on 1 July 2022.

#### **Decree No. 184/2022 Coll., amending Decree No. 244/2013 Coll., on more detailed regulation of some rules set out by the Act on Management Companies and Investment Funds, as amended by Decree No. 52/2016 Coll.**

The amendment transposes Directive (EU) 2021/1270 as regards the sustainability risks and sustainability factors to be taken into account for Undertakings for Collective Investment in Transferable Securities (UCITS), supplements the requirements for the annual report pursuant to the SFDR and amends some other provisions of the decree on the basis of practical experience with its application and due to its harmonisation with other regulations. The decree took effect on 1 August 2022.

#### **Decree No. 185/2022 Coll., amending Decree No. 246/2013 Coll., on the statute of a collective investment fund**

The amendment supplements the essential elements of the statute of a collective investment fund pursuant to EU law in the area of sustainable finance and makes some other changes in response to practical application. The decree took effect on 1 July 2022.

#### **Decree No. 227/2022 Coll., amending Decree No. 308/2017 Coll., on the more detailed regulation of certain rules in the provision of investment services**

The decree responds to a legislative amendment in connection with the transposition of Commission Delegated Directive (EU) 2017/593 supplementing Directive 2014/65/EU with regard to the safeguarding of financial instruments and funds belonging to clients, product governance obligations and the rules applicable

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<sup>11</sup> An overview of all the CNB's decrees and selected explanatory and similar documents is given in part B, section IX. The CNB's regulatory activities in 2022. All documents are available on the CNB's website.



to the provision or reception of fees, commissions or any monetary or non-monetary benefits. It incorporates sustainability factors into the product governance obligations. The decree took effect on 22 November 2022.

***Decree No. 230/2022 Coll., amending Decree No. 346/2013 Coll., on reporting of banks and foreign bank branches to the Czech National Bank, as amended***

In response to an amendment to the Act on the CNB requiring providers of consumer credit secured by residential property to comply with limits on credit ratios (LTV, DSTI and DTI) for such loans where activated by the CNB, the decree sets out the method and rules for calculating the credit ratios. The decree took effect on 1 January 2023.

***Decree No. 252/2022 Coll., amending Decree No. 2/2019 Coll., on records of covered blocks***

The decree responds to Act No. 96/2022 Coll., amending certain laws in connection with the implementation of EU legislation relating to the capital markets union, specifically to an amendment to the Act on Bonds. The decree newly takes into account the introduction of a liquidity buffer for the cover pool in Article 28aa of the Act on Bonds, which addresses the risk of liquidity shortages. The decree took effect on 1 January 2023.

*(b) Important explanatory opinions on financial market regulation*

***Regarding anti-money laundering obligations in the investment fund sector***

On 4 January 2022, the CNB published an opinion on anti-money laundering obligations for investment funds and management companies. The opinion states that a management company as such is not currently an obliged entity, but may become one when performing a specific activity. This also applies to non-autonomous investment funds with legal personality. The opinion also explains that anti-money laundering obligations are fulfilled primarily by the administrator and not by the manager in the case of an investment fund. At the same time, it defines the situations in which the manager may also become an obliged entity and sets out the extent of its obligations.

***Regarding the unauthorised taking of deposits from the public (illegal banking)***

On 16 June 2022, the CNB published an opinion summarising its approach to assessing unauthorised taking of deposits pursuant to the Act on Banks, especially the definition of a deposit and the characteristics of an illegal bank. In addition to the traditional taking of deposits, i.e. the funds entrusted to the bank that constitute an obligation of the bank to the depositor to repayment thereof, the opinion examines in detail the acceptance of deposits in the form of the continuing issuance of bonds and other comparable securities where one of the conditions laid down in Article 2(2) of the Act on Banks is met. The opinion concludes by discussing concurrent activities within a group in the context of illegal banking.

***Regarding illegal collective investment funds***

On 30 June 2022, the CNB published an opinion summarising the procedures it follows when assessing various business models in which the business activity consists, or may consist, in collecting funds or things that can be valued in terms of money from the public and which may display the characteristics of an illegal collective investment fund pursuant to Article 98 of the AoMCIF.

***Regarding records of face-to-face meetings pursuant to the Capital Market Undertakings Act***

On 11 August 2022, the CNB published an opinion summarising how and to what extent investment firms should make records of face-to-face meetings with clients so that the records give appropriate information about compliance with the related duties and contain all relevant information regarding face-to-face conversations with clients. The opinion also deals with the conditions for ensuring the credibility of such records, the possibility of referring to other records and documents and the possibility of using the records of face-to-face meetings for compliance with other duties, and the regulation of records of face-to-face meetings by an internal regulation.

***Regarding the records of telephone conversations and electronic communication in the provision of investment services***

On 16 December 2022, the CNB published its approach to the mandatory recording of all calls on all devices used for communication with clients, which an investment firm provided to a staff member authorised to provide investment services to clients, or the use of which the investment firm has allowed or approved. The inclusion

of a staff member's telephone number on a business card, on a website, in contractual documentation or in marketing communication may also be regarded as approval where the telephone number indicates that it belongs to the investment firm's business network and is used for communication between staff members and clients.

*(c) Important supervisory information*

**Regarding the duties of insurance distributors in the area of product oversight and governance**

On 13 September 2022, the CNB published Supervisory Information No. 1/2022 on its website. The purpose of the information was to define the CNB's main supervisory expectations regarding compliance with the duties in the area of product oversight and governance by insurance distributors. The CNB issued the information on the basis of its findings regarding repeated shortcomings in the configuration of product governance systems by distributors of insurance products which do not create these products.

*(d) Important supervisory benchmarks*

**Regarding the requirements for selected procedures for the implementation of international sanctions**

In response to international sanctions against Russia and Belarus, the CNB issued an update of Supervisory Benchmark No. 2/2018 regarding the implementation of international sanctions on 22 July 2022. The CNB also clarified the relevant duties in areas where it finds frequent shortcomings during on-site examinations and updated some expectations following changes to relevant legislation.



### III. FINANCIAL MARKET SUPERVISION

The supervision performed by the CNB is based on a forward-looking system for assessing the risk profiles and systemic importance of supervised institutions.<sup>12</sup> In this way, the CNB captures systemic risks regarding the behaviour of financial market participants, identifies significant risks of the activities of supervised entities and quantifies their impact. Based on the outputs of this system, the CNB determines the intensity of its supervision of individual areas of the financial market and specific institutions. When performing supervision, the CNB assesses compliance with legal requirements in the areas of prudence, conduct of business and AML/CFT, taking into account the interconnectedness of all these areas.<sup>13</sup>

CNB supervision covers all phases of the life cycle of the supervised entities. In the approval (or authorisation, licensing or registration) proceedings, which constitute the first phase, the CNB assesses whether a potential entrant to the financial market is compliant with the criteria laid down in the relevant sectoral legislation. If the outcome is positive, the entity obtains authorisation, a licence or registration or, where applicable, another type of approval. The CNB's licensing and approval activities ensure access to the financial market only to entities fulfilling the conditions for providing financial services in a manner that does not jeopardise the stability of the financial market while at the same time meeting the legitimate needs of their users.

In the second phase of the life cycle of financial market entities, the CNB supervises the proper performance of their business activities. The CNB performs supervision of the financial market in the form of off-site surveillance and on-site examinations. It selects the form of supervision with due regard to its effectiveness in each case. Supervisory work is planned systematically and performed in accordance with internal procedures to ensure consistency. In its supervisory activities, the CNB uses a wide information base encompassing both publicly available and confidential information. The information obtained is subject to both regular and extraordinary (thematic) assessments based on analytical tools developed by the CNB. These tools include regular supervisory stress tests of banks and insurance companies and a system for monitoring financial market transactions. Relevant findings are then communicated to supervised entities. The specific form of such communications depends on the content of the findings.

If any shortcomings are detected in the supervised entities' activities, the CNB imposes fines or measures depending on their seriousness and frequency. The latter include remedial measures and the revoking of a licence or cancellation of registration, which are already included in the third and final phase of a financial institution's life cycle. The CNB then performs follow-up checks within a reasonable period of time to ensure that corrective action has been taken. As part of its enforcement activities, the CNB proceeds in the individual sectors not only in accordance with the relevant sectoral law, but also in accordance with other legislation governing the activities of specific supervised entities. As regards the disclosure of the specific entities affected by the CNB's decisions, the CNB is obliged to publish its final decisions under some laws, whereas other laws do not permit their publication. This affects the degree to which penalty decisions are specified in the following part of this publication. In justified cases, ongoing penalty administrative proceedings can also be stopped, for example when assessing a breach as being non-material or for procedural reasons. The decisions mentioned below on imposing fines became final and conclusive in 2022.

#### III.1 SUPERVISION OF CREDIT INSTITUTIONS

The CNB was supervising 21 domestic banks, including five building societies, as of the end of 2022. Equa bank a.s. ceased to exist and the licence of Sberbank CZ, a.s., was revoked last year. The CNB was also supervising six credit unions. The credit union Družstevní záložna Kredit, v likvidaci, ceased to exist in 2022. To a limited extent, the CNB was also supervising 21 branches of banks from EU/EEA countries, i.e. one branch more than in 2021. The MUFG Bank (Europe) N.V. Prague Branch closed down, while AS Inbank, odštěpný závod, and FCM BANK Praha, odštěpný závod, commenced their activities. Two branches of third country banks, both Chinese, continued to operate in the Czech Republic.

<sup>12</sup> The CNB publishes lists of regulated and registered supervised entities on its website ([www.cnb.cz](http://www.cnb.cz) > Supervision, regulation > Lists and registers).

<sup>13</sup> Additional relevant supervision-related information is presented on the CNB website ([www.cnb.cz](http://www.cnb.cz) > Supervision and regulation).

In 2022, the CNB decided on 37 applications for consent to acquire a qualifying holding in a bank in 11 joint proceedings. Many of these decisions concerned the unfinished project involving the acquisition of MONETA Money Bank a.s. by the PPF group. The most important of these decisions included consent to the acquisition of a qualifying holding by Banka CREDITAS a.s. in Expobank CZ a.s. Following the revocation of the banking licence of Sberbank CZ, the CNB granted consent to the transfer of the business of Sberbank CZ, a.s. v likvidaci to Česká spořitelna a.s.

The situation in the credit institutions sector in 2022 was affected mainly by the risks and uncertainties related to the impacts of the war in Ukraine, in particular its indirect impacts in the form of higher prices and reduced supplies of energy and other commodities, as well as persisting supply chain restrictions. CNB off-site surveillance and on-site supervision of credit institutions focused, among other things, on credit portfolio quality, capital adequacy and provisioning. It also concentrated on the adequacy of interest rate risk management in an environment of elevated interest rates, ICT risk management in connection with increasing numbers of cyber attacks and AML risk management, including the ability to comply with the requirements arising from international sanctions (see Box 2 for details).

These risks were also highlighted in **the Supervisory Review and Evaluation Process (SREP)** last year. In the context of credit risk assessment, greater attention was paid, for example, to a potential deterioration in credit portfolio quality on account of increased interest rates on client loans or growth in inflation (especially due to the impact of higher energy prices). The CZK/EUR interest rate differential increased corporate client interest in the drawdown of euro-denominated loans. This was reflected in an increase in the volume and share of foreign currency loans in this segment. As regards the management of credit risk linked with foreign currency loans, the CNB last year addressed a letter to credit institutions and the Czech Banking Association (CBA) setting out its expectations in this area as regards compliance with prudential rules, conduct of business and the proper provision of information to clients about the related risks. At the same time, it conducted a broad-based supervisory survey to assess individual banks' practices as regards foreign currency lending (see Box 1 on foreign currency lending) and to identify possible imprudent practices. The CNB also again communicated to credit institutions, the relevant associations and the Czech Chamber of Auditors its expectations regarding the level of provisions and buffers for credit exposures in an environment of significant uncertainty about future economic developments. The assessment of interest rate risk also took into account the potentially lower reliability of banks' deposit models due to the changing behaviour of clients in an environment of elevated interest rates, where deposits are transferred from current to term and savings accounts, including transfers thereof to banks offering higher interest rates.

#### **BOX 1: Supervision of foreign currency lending by banks to households and non-financial corporations**

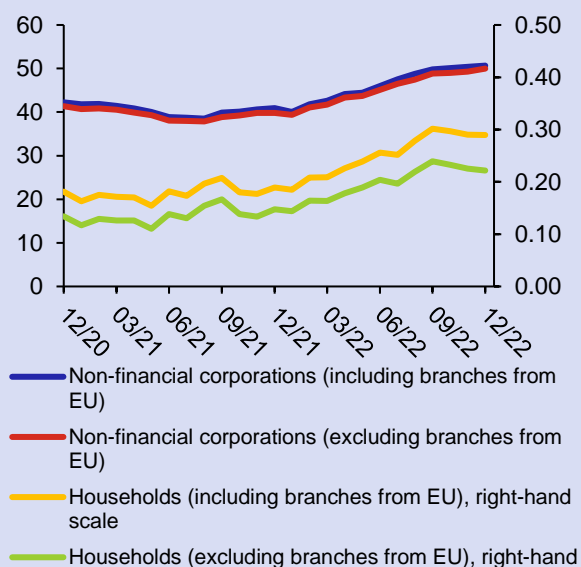
The stock of foreign currency loans provided by domestic banks to households and non-financial corporations amounted to CZK 640 billion at the end of 2022, of which CZK 635.3 billion were loans to non-financial corporations and CZK 4.5 billion were loans to households (see Chart 2 below).<sup>14</sup> The total stock of foreign currency loans thus increased by 30.5% year on year. Foreign currency loans made up 50% of total loans to non-financial corporations, while they accounted for 0.2% in the household segment (see Chart 1 below).

**In view of the growth in foreign currency loans in 2022, the CNB placed increased emphasis on the quality of credit institutions' management of risks associated with foreign currency lending, using various supervisory tools to this end.** As part of its off-site surveillance, the CNB continuously analysed foreign currency loans at both the portfolio and individual levels. Banks' plans in this area were also the subject of regular meetings between the CNB and banks. The CNB focused mainly on the risks associated with the provision of unsecured foreign currency credit, emphasising the very high risk especially if a bank plans to start providing a larger volume of foreign currency loans to retail clients. The management of risks associated with foreign currency lending was also an important area of on-site examinations. Attention was paid not only to the management of credit risks associated with foreign currency lending, but also, for example, to the procedures for identifying the related capital needs, strategic management and the assessment of the management of foreign currency liquidity positions.

<sup>14</sup> The calculations in this box are based on data from the monthly statements on loans to and receivables from the clients of banks and foreign bank branches, including non-residents. The data are adjusted for loans to sole proprietors and flat owners' associations.

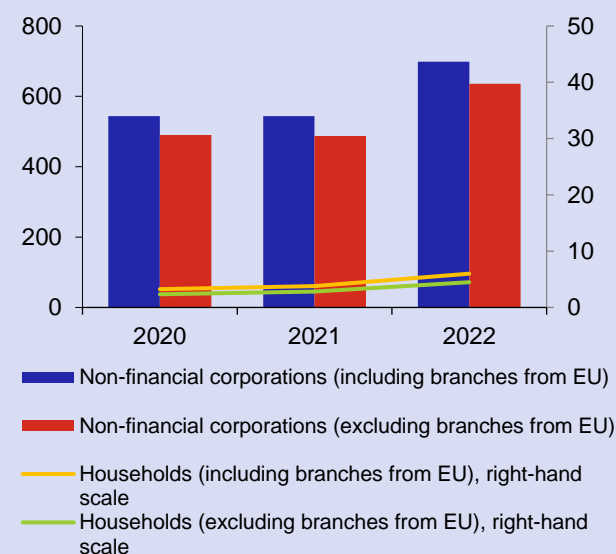
**Chart 1 (BOX)**  
**Shares of foreign currency loans**

(in % of loans to given sector)



**Chart 2 (BOX)**  
**Cumulative amount of foreign currency loans**

(in CZK billions; as of end of year)



In May 2022, supervised credit institutions were informed in detail about the CNB's expectations regarding the quality of the risk and capital management systems for credit institutions which provide or decide to provide foreign currency loans. **In response to this call and the information received, the CNB launched a broad-based supervisory survey in October**, covering all credit institutions which are subject to its prudential supervision and provide foreign currency loans. The CNB requested documents relating to the process of foreign currency lending and management of related risks, including quantitative data on the foreign currency loan portfolio. The supervisory survey focused on an assessment of the procedures and rules established as part of the overall process of foreign currency lending. Attention was focused on processes for assessing the creditworthiness of clients applying for foreign currency loans, including the sufficiency of natural or contractual currency hedging and an assessment of the risk of changes in the exchange rate on clients' ability to service loans. The CNB also assessed, among other things, whether institutions' strategic documents sufficiently captured the approach in this area and whether monitoring procedures, including portfolio monitoring, were appropriate. As part of its supervisory survey, the CNB also focused on procedures in many other related areas, such as stress testing, capital planning and liquidity risk management. It also assessed how the risks associated with foreign currency loans are reflected in the procedures governing internal audit activities. On-site examinations subsequently verified the information obtained in the broad-based survey and individual institutions' practices.

After evaluating the information obtained and identifying any shortcomings in credit institutions' procedures for foreign currency lending, the CNB provides feedback to the institutions and assesses the need for further supervisory action. **Foreign currency lending remains a priority of the CNB's supervisory work in 2023.**

Enhancing the **cyber resilience of credit institutions** and their ability to ensure the continuity of important services in exceptional situations is essential for the sound and smooth operation of the financial market. The effects of cyber threats are not limited to credit institutions. As a result, increased attention was paid to assessing the management of outsourcing-related risks and the use of third-party ICT services. The CNB's on-site examinations focused on verifying the functionality of all three lines of defence in the area of information security of the institutions examined.

The focus of the CNB's **AML/CFT** supervision was significantly affected by European sanctions against Russia and Belarus. For the first time, the CNB also assessed the results of the verification of selected credit institutions' AML/CFT procedures by an external auditor. These reports were followed by bilateral discussions about follow-up remedial measures and communication with selected associations, the Chamber of Auditors of the Czech Republic and the Public Audit Oversight Board to further improve and maximise the benefits of using these audits. The inclusion of the duty to check the governance system in the area of AML/CFT by an external auditor in the portfolio of supervisory tools is used in this area, the CNB aims to further enhance the quality of the supervised institutions' governance systems, with an emphasis on the preventive role of the

measures applied. Overall, the CNB focused on further developing the risk-oriented approach, both in its scheduling of inspections and in determining their specific focus. It further developed data analysis tools, which led to a more accurate risk assessment of individual institutions and allowed for a more efficient use and targeting of supervisory processes. On-site examinations assessed the efficiency and effectiveness of the system of preventive measures applied by credit institutions, both generally and in areas assessed as risk sensitive (in particular transaction monitoring and the implementation of international sanctions). In 2022, the CNB continued to work closely with the Financial Analytical Office (FAU), including the exchange of supervisory information and cooperation in the preparation of explanatory opinions, the FAU's methodological guidelines and the CNB's supervisory benchmarks.

#### **BOX 2: Implementation of international sanctions stemming from the current geopolitical situation**

One of the international community's responses to Russia's invasion of Ukraine was the imposition of an unprecedented number of sanctions, notably by the EU and the G7, on Russia and Belarus, and on selected natural persons and legal entities from these countries. A total of nine packages of sanctions were adopted in the EU in 2022, targeting a wide range of areas of the economy, including the provision of financial market services, the use of financial infrastructure and the freezing of assets of selected entities. However, for financial institutions, the announcement of sanctions in itself is only the start of a relatively complicated process associated with their implementation and compliance. In particular, it is necessary to pay attention to detail in order to avoid possible failure on the part of the obliged entities.

Clearly, it is essential for each financial institution to have an adequate governance system in place, which is capable of reacting in a timely, efficient and flexible manner to the rapidly changing requirements stemming from sanctions. In practice, this requires coordinating a whole range of aspects, such as the timely implementation of sanction requirements into institutions' IT environments, their proper incorporation into all relevant types of situations – including, for example, the opening of a client account or entering into a business relationship with the client in question and a continuous monitoring of this relationship – as well as online checks when making payments. In the case of foreign transactions, it is essential to carry out checks before the transaction itself is executed.

Financial institutions' staff also have the permanent task to continuously improve the effectiveness of the detection rules. Various systems of fuzzy logic<sup>15</sup> and the determination of percentage error, i.e. the level of error tolerance for the transcript of the name of the sanctioned person or entity being checked, play a key role here. Ongoing control of individual information systems, which provide critical support for these processes, is also a key component.

Control procedures among the individual financial institutions at the domestic as well as European and global level also play a role. If one of the links in the chain of controls fails, another financial institution is always expected to prevent this error from repeating by not relying solely on the quality of a counterparty's measures. When performing AML/CFT supervision, the CNB found that institutions had not introduced or applied appropriate internal control and communication mechanisms to implement financial sanctions. This exposed them to a number of operational risks.

The potential materialisation of the risk of breaching sanctions would not only result in a financial institution enabling the intermediation of financial operations to sanctioned persons, but would also generally pose a threat to its reputation. This may lead, for example, to the loss of correspondent banking relationships or to limited willingness among service providers (e.g. in the area of information systems, derivatives trading, etc.) to stay in a business relationship with the financial institution concerned, and ultimately damage its operation or stability. In extreme cases, a financial institution may face criminal liability.

The proper implementation of sanctions by domestic supervised entities is also a very practical issue. This is because the Czech Republic, as a transit country, has been exposed both historically and territorially to the activities of persons from the former Soviet Union. In addition to the FAU, the CNB is a key institution in the area of oversight of the implementation of international sanctions by the institutions it supervises. It therefore pays considerable attention to checking compliance with these sanctions and preventing money laundering. At the same time, the CNB recognises the pivotal role played by financial institutions themselves in this respect and supports their efforts, cooperation and exchange of information. To this end, it communicates its expectations regarding the procedures and measures used by institutions to implement international sanctions in a transparent manner (see, for example, Supervisory Benchmark No. 2/2018 regarding the requirements for selected procedures for the implementation of international sanctions). Institutions are expected to incorporate a detailed, clear and comprehensible description of how they will proceed when implementing sanctions into their internal rules. Only the adequate functioning of all the above measures can ensure proper compliance with sanctions, good reputation and resilience of the financial system at the domestic level.

<sup>15</sup> A subfield of mathematical logic derived from the theory of fuzzy sets. It is used as a universal tool for working with imprecise, ambiguous and vague information.

In 2022, CNB supervision of **conduct of business and consumer protection in credit institutions** comprehensively examined credit institutions' compliance with information duties to clients, compliance with duties linked with maintaining payment accounts, product management and risk management in relevant areas, including the related procedures in internal rules. Another integral part of off-site surveillance of credit institutions was the supervision of compliance with banks' liabilities arising from national and European legislation in the provision of the services of investment and pension fund depositories, which is important for protecting investors on the capital market. In addition to resolving the failure of Sberbank CZ, a.s., and the review of selected incident-related submissions from the public, the CNB conducted a number of thematic investigations in which it systematically examined in particular (i) banking identity, (ii) basic payment accounts, (iii) sending information reports on currency conversion fees for card transactions, (iv) measures against payment fraud, (v) protected payment accounts in enforcement of judgements, (vi) opening and maintaining accounts for wards, (vii) handling claims and complaints, (viii) product governance and promotion, (ix) informing customers of investment-related costs and fees, and (x) measures taken by banks to protect investment instruments owned by clients. To protect the integrity of the financial market, the CNB examined notifications from banks and other market participants about transactions and orders which raised suspicions of market abuse.

In 2022, the CNB received a total of 1,759 submissions from the public regarding activities of credit institutions, 1,371 of which concerned the provision of payment, investment and deposit services and bureau de change activity (369 of which related to the failure of Sberbank CZ, a.s.), and 388 concerned the provision of consumer credit. Submissions made by the public are a very useful source of information for supervision, as they provide feedback on financial market practices and the conduct of individual institutions towards clients. Most of the submissions concerned payment accounts and related services, the submission of identification documents and proof of the origin of funds, and the handling of client claims and complaints, including related communication. As regards investment services, the submissions – with the exception of Sberbank CZ, a.s. – concerned various forms of excessive non-contractual obstacles to the exercise of consumer rights and the provision of misleading or incomplete information.

### BOX 3: Combating fraud in payment services

The high degree of digitalisation of financial services led to an increased risk of fraud in the online environment in 2022, particularly in relation to the provision of payment services, which is linked to the long-term growth of cyber crime as such. In 2022, cyber crime accounted for more than 10% of total registered crime. A large proportion of this was crime in financial services and online banking, where the number of attacks has increased several fold in recent years. At the same time, fraud is becoming more sophisticated. Therefore, the CNB will continue to pay increased attention to this issue.

The general public, including vulnerable groups of consumers, was the target group for the attacks. These took the form of vishing (fraudulent phone calls) or phishing (fraudulent links sent mostly through chat applications, text messages or e-mails). Attackers used techniques to manipulate victims into sharing their personal security features (either directly or through fraudulent applications) and to enable fraudulent devices to access an account, with the aim of withdrawing clients' funds from their accounts through fraudulent transactions. In some cases, fraudsters misused personal security features to access other financial services (e.g. for fraudulent borrowing). Submissions by members of the public were one of the sources of information about financial market fraud relevant to the CNB's supervisory work. In addition to fraudulent payments and fraudulent borrowing, the submissions also pointed to crypto-asset fraud and social engineering aimed at depositing cash at crypto ATMs.

Fraudulent behaviour most often occurs when the defrauded clients are complicit, typically by sharing the access information to their accounts, i.e. by passing on the most sensitive and confidential information clients have for conducting payment transactions. It is therefore crucial that financial institutions consistently and regularly keep their clients informed about current threats in connection with the provision of financial services and about the measures clients themselves should take to protect their funds and subsequently prevent damage in the event that they become victims of fraud. It must be noted that the CNB is not authorised to settle private law disputes between clients and financial institutions. Therefore, if fraud occurs and the client of a financial institution incurs damages in connection with the fraud, the client must turn to the Financial Arbitrator or a court, which are the authorities responsible for settling disputes in such instances.



For this reason too, it is essential that financial institutions pay attention to prevention to ensure that depositors' funds are protected and payments are executed safely. When performing financial market supervision, and in particular of the activities of credit institutions, the CNB has long placed an emphasis on the proper configuration of their governance systems, including the introduction of effective mechanisms by which these institutions can themselves eliminate fraudulent activities in the area of financial services. Banks and other financial institutions are constantly strengthening the robustness and resilience of their systems and procedures by implementing preventive tools enabling them to monitor and prevent fraudulent activities. The CNB also regards as important actions by financial institutions to eliminate damages in the event that fraudulent behaviour has already occurred. Besides the need to enable clients to block payments at any time, it is crucial that they cooperate with each other and provide assistance to law enforcement authorities so that the fraudulently obtained funds can be seized.

In addition to prevention on the part of financial institutions, prevention in the form of client education is just as important. To strengthen financial and economic literacy, the CNB also uses its own communication tools to prevent fraud and provide information on current threats of fraud via its website at: <https://www.penizenauteku.cz/> (in Czech only). The CNB also monitors the educational activities of credit institutions and private initiatives (e.g. the Czech Banking Association's #NePINdej campaign).

The CNB conducts supervisory investigations or uses supervisory information as indicating the need for on-site examinations<sup>16</sup> based on submissions by members of the public, the areas identified or internal or external information. As regards conduct of business<sup>17</sup> supervision, the CNB launched 265 supervisory investigations in credit institutions by means of supervisory calls in 2022. During these surveys, the CNB identified dozens of findings of various degrees of seriousness in the activities of supervised entities and sent 37 notifications of shortcomings. In these cases, it sought voluntary remedy, which it then actively monitored or is monitoring. Most of the entities concerned took appropriate remedial measures, although some of the cases are still being investigated by the CNB.

In 2022, the CNB opened five new enforcement proceedings in the credit institutions sector. In all, 10 decisions became final and conclusive. Fines were imposed in five cases, remedial measures were imposed in two cases, a licence was revoked in one case (Sberbank CZ, a.s.) and the proceedings were discontinued in two cases. The highest fine of CZK 1 million was imposed on Československá obchodní banka, a.s. for proceeding in contravention of legal rules governing the provision of banking services when introducing strong customer authentication. The fines imposed in the credit institutions sector totalled CZK 2,450 million in 2022.

### III.2 SUPERVISION OF INSURANCE COMPANIES

The CNB was supervising 23 domestic insurance companies<sup>18</sup> and one reinsurance company as of the end of 2022. It was also supervising, to a limited extent, 18 branches of foreign insurance companies, all of them based in an EEA country, and the cross-border marketing of insurance to consumers in the Czech Republic by foreign insurance companies based on the freedom to provide services on a temporary basis.

The most important proceedings in the insurance sector included an extension of the licence of DIRECT Pojišťovna a.s. to include insurance against damage to railway vehicles, and Credendo – Short-Term EU Risks úvěrová pojišťovna, a.s. to include reinsurance activities.

In 2022, as part of the **supervisory review process (SRP<sup>19</sup>)**, the CNB focused on analysing the risk profiles of insurance companies, monitoring their performance and financial situation, assessing their capital and solvency position and compliance with the conduct of business and consumer protection rules. Within the SRP,

<sup>16</sup>The CNB commenced one examination in a bank in the area of payment and investment services, dynamic currency exchange (DCC) and EMIR derivatives trading in the period under review. Four examinations were also conducted in the bureau-de-change area and four examinations focusing on DCC were carried out in six institutions. An examination in one credit union was also commenced in the area of payment services and compliance with the principles of consumer protection and conduct of business in offers of bonds (silent intermediation, promotion and offers of bonds). A number of findings of various degrees of seriousness were identified in these examinations and inspections.

<sup>17</sup>Excluding consumer credit activities, which are described in more detail in sub-section III.8.

<sup>18</sup>For the purposes of this document, we also include the Czech Insurers' Bureau and the Export Guarantee and Insurance Corporation, which are supervised to a defined extent.

<sup>19</sup>Supervisory Review Process, a review by a supervisory authority pursuant to Article 36 of Solvency II.

it also assessed the configuration and quality of insurance companies' governance systems, with an emphasis on robust risk and capital management systems. The standard supervisory tools also included the analysis of ORSA<sup>20</sup> reports submitted by insurance companies to the CNB.

In response to major external factors, in particular the geopolitical situation in Europe and the global economic situation, the CNB paid special attention and increased supervisory capacity to assess their impacts on insurance companies' balance sheets, including the effects on their capital positions. The extraordinary reporting duties to the CNB implemented in 2020, which focused on the impacts of the coronavirus pandemic, were continuously updated and supplemented in 2022 to reflect new risks associated with the impacts of Russia's invasion of Ukraine and adverse developments in some economic indicators, in particular continued growth in key interest rates, a significant appreciation of the koruna and above all a rise in the inflation rate. In the context of geopolitical developments, the CNB paid increased attention to the potential risk exposures of insurance companies and also to insurance sectors that are more affected by all the above external factors.

The CNB also continuously monitored organisational changes in insurance companies and evaluated their impact on their governance systems. It monitored developments in relevant judicial decision-making practices and the way legal risk is managed by insurance companies in the configured governance system, including reflecting on developments in valid case law with implications for private law. The CNB also evaluated the scope and nature of externally provided activities or outsourcing (including cases of intra-group outsourcing). In this context, it put an emphasis mainly on the retention of strategic decision-making in insurance companies, their ability to ensure insurance business continuity and check the quality of services provided. The CNB has long focused on monitoring the risks associated with the quality of asset and liability management in insurance companies. As regards ICT risk supervision, the CNB focused primarily on assessing the level of risks in the most important insurance companies in 2022. It focused on evaluating the cyber resilience of insurance companies, the overall quality of ICT governance systems and the risks of insurance companies' major ICT projects.

The CNB continued to supervise **premium sufficiency management for third-party vehicle liability insurance** in 2022. It also performed analyses of information regarding compliance with the requirements for an effective premium sufficiency management system, ensuring that claims arising from this type of insurance can be settled any time. The results of the analyses were a key input for the planning and taking of relevant supervisory actions, both in relation to individual insurance companies and at the level of the insurance segment. As regards internal premium sufficiency management systems, insurance companies' internal governance processes are gradually being modified and streamlined, responding to supervisory findings and remedial measures imposed. The CNB considers it essential in this area to reflect all the relevant facts in vehicle liability insurance pricing. Monitoring the situation remains one of the CNB's supervisory priorities in the period ahead.

Supervisory surveys and the annual collection of information in **conduct of business and consumer protection** pointed, among other things, to a number of new trends and tendencies gradually spreading into the insurance sector. Firstly, the aim is to streamline procedures, reduce costs and exploit synergies within the groups. This is reflected in the outsourcing of many insurance companies' activities (the setting-up of service companies whose employees are also used by other entities from the group, sometimes even cross-border). On the other hand, intra-group outsourcing increases the importance of managing risks of conflicts of interest and the risk of an insufficient differentiation of tasks and responsibilities with a potential negative impact on the client. The CNB also focused on chain-linking providers' activities, which is associated with the risk of more difficult checks and lower transparency and related difficulties in exercising clients' rights. The CNB also monitors the introduction and use of AI systems, which insurance companies actively involve, for example, when communicating with clients. At the same time, this places greater demands on the management of the associated risks so as to avoid harm to or discrimination against customers.

In parallel, the CNB conducted **thematic surveys** based on supervisory findings, submissions from the public, EIOPA initiatives and new European regulations to examine current practices in the insurance market. The

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<sup>20</sup> Own Risk and Solvency Assessment, which insurance and reinsurance companies must perform under Pillar 2 of Solvency II.



CNB also dealt with comprehensive health insurance for foreigners (focusing on the consequences of early termination for clients and the impacts of a change to legislation in 2021). As regards the deepening of the requirements and expectations relating to product governance rules at the European level, the CNB started to examine the methodology for assessing insurance-based investment products in terms of their value for money for clients and the approaches of individual insurance companies.<sup>21</sup> Following the entry into force of European legislation in the area of sustainable finance, the CNB focused more closely on the duty to disclose information by insurance companies offering insurance-based investment products. The CNB continued to monitor the distribution of “fleet insurance”, i.e. insurance through policyholders who allow other persons to become an insured person.

Last year, the CNB conducted a number of supervisory surveys focusing, for example, on (i) the cross-border offering of travel insurance in terms of product management and adaptation to conditions in the Czech Republic, (ii) insurance companies' activities in the area of the transfer of existing client portfolios to new products currently offered, (iii) rules for communication with clients, especially in the administration and termination of insurance and in loss adjustment, (iv) rules and processes for negotiating insurance products through different distribution channels (telephone, internet comparison sites, etc.), (v) adequacy of internal regulations and (pre-) contractual documentation for clients, and (vi) loss adjustment rules and processes, especially in vehicle liability insurance.

In 2022, the CNB received 481 submissions from the public in the insurance sector. The share of submissions regarding motor third party liability insurance has long been significant (33%).<sup>22</sup> The submissions from the public concerned mainly loss adjustment, as well as insurance negotiation, administration and termination, and the handling of clients' complaints. Most of the complaints pertained to vehicle liability insurance, followed by submissions concerning travel insurance and property insurance. Given its supervisory powers, the CNB identified potential shortcomings in the insurance company's procedures in almost one-third of the submissions made by the public and subsequently sent 62 notifications, addressing more than one hundred shortcomings of various degrees of seriousness. Another significant part of the findings arising from submissions from the public was used in on-site examinations<sup>23</sup> or for the purposes of thematic surveys (see above). The CNB also uses data on the status of complaints received by individual insurance companies, which are part of the annual collection of data on consumer trends.<sup>24</sup>

In 2022, one new enforcement proceeding was opened in the area of supervision of insurance companies and three decisions became final and conclusive. A fine was imposed in one case, a decision to approve a recovery plan was issued in one case and remedial measures were imposed in one case. The relevant sectoral legislation does not permit the publication of specific penalty decisions. However, it is possible to disclose that a fine of CZK 400,000 was imposed on an insurance company for failure to introduce an effective governance system in the area of risk management and check compliance with legal rules.

### III.3 SUPERVISION OF PENSION MANAGEMENT COMPANIES AND RETIREMENT FUNDS

The CNB was supervising nine pension management companies (PMCs) at the end of 2022. The number of supervised participation funds increased to 36. The newly established pension funds are Conseq Target Bond 2035 účastnický fond and ČSOB dynamický zodpovědný účastnický fond, a. s., a member of the ČSOB group. The number of transformed funds remained unchanged at eight.

<sup>21</sup> Supervisory Statement on the assessment of value for money of unit-linked insurance products under product oversight and governance, [EIOPA\(2021\) 0045739](#), 30 November 2021.

<sup>22</sup> Also important were submissions regarding insurance companies' behaviour in respect of life insurance products (12%) and property insurance (11%). The number of travel insurance complaints increased compared to the previous calendar year (12%). At the same time, the number of submissions regarding insurance of the guarantee against bankruptcy of travel agencies normalised (down from 6% in 2021 to 1% in 2022).

<sup>23</sup> In the given period, three on-site inspections and one examination were carried out. These examinations focused, among other things, on the configuration of products and processes relating to life insurance products with an investment component and travel insurance, the management of the quality of insurance distribution, loss adjustment, and handling claims and complaints. A number of shortcomings of various degrees of seriousness were identified.

<sup>24</sup> The latest consumer trends report is available on [EIOPA's website](#).

In 2022, CNB supervision focused its attention on PMCs' capital adequacy and assessed their capital management systems, especially in the context of rising interest rates, which are negatively affecting the revaluation reserve for securities. As regards the supervision of transformed funds, the CNB focused mainly on compliance with the requirement to cover liabilities with assets at all times, which is relevant mainly because of the gradual increase in interest rates.

Due to the after-effects of the pandemic and the new geopolitical and economic risks, the CNB allocated increased supervisory capacity to monitoring and assessing their impacts on PMCs' capital condition, profits and overall activities. In addition, it also observed financial market developments and assessed the impacts on the assets managed by the supervised entities. In the AML/CFT area, the CNB prepared a sectoral assessment of money laundering and terrorist financing risks in the pension management companies sector.

As regards conduct of business and conduct towards clients, the CNB assessed compliance with the rules for the management of assets of funds managed by PMCs and dealt with processes related to the termination of contractual relationships. This area was often the subject of submissions from the public, including with regard to the formal aspects of preparing a withdrawal from contractual relationship or an agreement to terminate a contractual relationship. The CNB also launched a general survey of the configuration of commission and incentive schemes in the intermediation of supplementary pension savings. It also conducted its regular thematic survey of customer complaints for PMCs.

The CNB received a total of 57 submissions from the public in its supervision of private pension schemes and supplementary pension savings in 2022. The CNB recorded a twofold increase in the number of complaints received in 2022 compared to the previous period, when the number of complaints was broadly flat. Besides the standard topics (the calculation of benefits and date of payment, communication with planholders), submissions from the public also concerned the negative performance of participation funds and/or low returns on supplementary pension savings, and transfers of private pension schemes to supplementary pension savings.

On the basis of submissions from the public and other information regarding the activities of supervised entities, the CNB opened 37 investigations using supervisory calls. In the period under review, the CNB identified a few dozen shortcomings of various degrees of seriousness and sent 11 notifications of shortcomings. In these cases, the CNB requested voluntary remedial measures, the implementation of which is subject to subsequent supervisory monitoring. Supervisory information was also used as an indication for on-site examinations.<sup>25</sup>

In 2022, the CNB opened one enforcement proceeding and issued a final decision under the Supplementary Pension Savings Act, imposing a fine of CZK 200,000 on Allianz penzijní společnost, a.s. for failure to comply fully with the requirement for proper and prudent performance of the activities of a pension management company and to introduce the necessary procedures.

#### III.4 SUPERVISION OF INVESTMENT FIRMS

The CNB registered 38 entities holding an investment firm licence at the end of 2022, of which 14 were banks and 24 were non-banks. In 2022, the CNB newly granted licences to non-bank investment firms Aisa International, s.r.o., and RUBIKONFIN a.s. By contrast, three non-bank investment firms (Prague Wealth Management, s.r.o., MTX Capital Services a.s. and REDSIDE Investments a.s.) terminated their activities at their own decision in this period. A total of 32 branches and tied agents of foreign investment firms were operating in the Czech Republic at the end of last year.

Following the entry into force of the European IFR regulation governing prudential requirements for non-bank investment firms, the legislative process transposing the related IFD directive into the Capital Market Undertakings Act was completed. In 2022, the CNB therefore adapted its supervisory processes in the non-

<sup>25</sup>During the period under review, the CNB launched one examination in a pension management company in the area of advertising rules, informing planholders and recording requirements and needs. In this period, an examination started in the previous period was also completed. Numerous shortcomings of various degrees of seriousness were identified in both cases.

bank investment firms sector to the requirements arising from the amended version of the Act. The new requirements apply, for example, to internal capital and liquid assets, the establishment of committees, remuneration of selected categories of staff, mandatory insurance for small and non-interconnected investment firms, and the new SREP (for more details, see Box 4).

#### BOX 4: Implementation of the new SREP for investment firms into CNB supervision

The transposition of Directive (EU) 2019/2034 on the prudential supervision of investment firms (IFD) into the Capital Market Undertakings Act also led to significant changes to the **supervisory review and evaluation process (SREP<sup>26</sup>)** in the non-bank investment firms sector. The result of the SREP is the setting of the comprehensive risk profiles of individual investment firms, which is a prerequisite for effective conduct of forward-looking risk-oriented supervision. The EBA and ESMA's joint guidelines,<sup>27</sup> which the CNB implemented in its supervisory practice, were issued in 2022 to support harmonised procedures and methodologies for the implementation of the SREP for non-bank investment firms. The implementation of the SREP in non-bank investment firms was also one of the topics of the supervisory seminar organised by the CNB for members of the Capital Market Association at the end of 2022.

When conducting the SREP, the CNB follows the fundamental principles of proportionality, continuity, consistency and transparency of the entire process. The individual steps are documented and the CNB uses a matrix of qualitative and quantitative questions in a dedicated application to determine the overall result of the assessment in the form of a calculated risk score. For SREP purposes, the CNB has divided non-bank investment firms into categories by size and riskiness of the authorised investment services, taking into account the scope, nature and complexity of the activities performed. As part of its supervisory work, the CNB regularly assesses key indicators describing the economic performance and capitalisation of individual investment firms and uses them to assess the **main elements of the SREP, which include (i) an analysis of the business model from the perspective of sustainability and viability, (ii) an assessment of the quality and robustness of the internal governance system, and (iii) an assessment of significant risk factors affecting the capital and liquidity situation.**

**If it finds that significant risks are not covered by the capital requirement, the CNB will impose additional capital requirements on the investment firm.** This is the most common supervisory measure arising from the implementation of the SREP. The aim of the related supervisory measures is to ensure that Czech investment firms maintain sufficient capitalisation on an ongoing basis to ensure the stability of this sector, despite the high degree of uncertainty prevailing on the capital markets in 2022 not only in connection with the fading coronavirus pandemic, but above all Russia's invasion of Ukraine.

Following an amendment to the Capital Market Undertakings Act, the CNB conducted the first assessment of trends and practices regarding remuneration in the non-bank investment firms sector and also actively participated in the EBA supervisory survey on diversity and the identification of gender pay gaps in 2022.

Some of the CNB's major tasks in its supervision of investment firms are inspection and supervision of compliance with the requirements arising from MiFID II. The CNB participated in a peer review organised by ESMA in this area. The review, conducted by means of off-site surveillance and on-site examinations, focused on compliance with the rules for informing customers about costs and fees for a selected sample of investment firms. The conclusions of the review were submitted to ESMA and the CNB also used them in a newly developed assessment of risk aspects in terms of compliance with legislative duties relating to conduct of business in individual investment firms.

The CNB continued its inspection activities focusing on compliance with the rules of conduct towards clients, especially on communication with clients and on duties relating to the offering of products. The CNB also dealt with the implementation of sanctions adopted after Russia's invasion of Ukraine and their impacts on investment firms' clients both in the sector as a whole and in cases based on submissions made by the public. It also dealt with the protection of client assets.

The number of submissions from the public regarding non-bank investment firms increased compared with 2021. The situation in 2021, where most of the submissions (more than 70%) drew attention to the activities

<sup>26</sup>SREP – Supervisory Review and Evaluation Process.

<sup>27</sup>EBA/GL/2022/09 Guidelines on common procedures and methodologies for the SREP under Directive (EU) 2019/2034.

of foreign investment firms, continued into 2022. Almost half of the complaints about foreign entities concerned companies whose activities are not supervised by the CNB. In accordance with the MiFID II rules, the CNB therefore informed the home supervisory authority of the complaints where relevant.<sup>28</sup>

On-site examinations focused not only on Czech investment firms, but also on branches and tied agents of foreign investment firms operating in the Czech Republic. On-site examinations were commenced in a total of five entities, including in cooperation with some foreign supervisory authorities, in order to choose the most appropriate approach to the group of entities concerned. In the entities examined, shortcomings are still being identified in the area of communication with clients, product governance and, at a formal level, also in terms of measures against money laundering and terrorist financing (AML/CFT).

In 2022, five enforcement proceedings pursuant to the Capital Market Undertakings Act were opened in the investment firms sector. Five decisions became final and conclusive, fines were imposed in four cases and proceedings were discontinued in one case. Following the administrative court's annulment of the original CNB decision, a new CNB decision imposing a fine of CZK 5 million on BH Securities a.s. also became final and conclusive. This fine was also the highest fine in this sector and was imposed for breach of a number of duties relating to the prudent provision of investment services, especially in the area of inspecting the network of investment intermediaries, and misconduct in relation to clients. The fines imposed in the investment firm sector totalled CZK 5,950,000.

### III.5 SUPERVISION OF MANAGEMENT COMPANIES AND INVESTMENT FUNDS

The CNB registered 44 management companies, three branches of foreign management companies, one primary administrator, 9 depositories, 250 investment funds with legal personality (of which 27 autonomous investment funds) and 284 mutual funds at the end of 2022. It granted licences to three new management companies: RSJ Asset Management investiční společnost, a.s., Versute investiční společnost, a.s., and MINT investiční společnost, a.s. A license was also granted to the autonomous investment fund Evermore Capital Management a.s., SICAV.

In 2022, the number of entities conducting asset administration comparable to asset management pursuant to Article 15 of the AMCIF and registered in the list maintained by the CNB increased by 102. Therefore, a total of 383 small alternative investment fund managers, whose activities do not require any authorisation and are not subject to CNB supervision, were registered with the CNB at the end of 2022.<sup>29</sup>

In direct response to the war in Ukraine, the CNB analysed the valuation of direct and indirect investment in Russian, Belarusian and Ukrainian assets held in investment fund portfolios. The survey focused on funds whose portfolios largely included these assets. Risk exposures were mostly indirect investment through emerging market equity ETFs or direct and indirect investment through holdings of government or corporate bonds. The methods for the valuation of those assets chosen by individual administrators can be considered acceptable. The CNB did not identify any major risk of a negative impact on the fund sector based on examinations and communication with supervised entities.

In 2022, the CNB participated in a common supervisory action of the ESMA focusing on the valuation of investment funds' assets. The aim of the survey was to verify, on a selected sample of standard (UCITS) and alternative (AIF) funds, whether and to what extent investment fund managers comply with organisational requirements, principles, methods and assessment procedures, which are able to provide a true and fair view of the financial position at all times. Special attention was paid to the valuation of less liquid assets. The CNB's examination revealed that the degree of knowledge of the requirements laid down in European and national legislation and their implementation in internal regulations and policies of individual managers in the Czech Republic was acceptable. It identified minor shortcomings in specific management companies and differences

<sup>28</sup>As regards foreign investment firms providing services in the Czech Republic using a branch or a tied agent, supervision is divided between the CNB and the home supervisory authority of a foreign investment firm.

<sup>29</sup>Registration in this list does not authorise an entity to conduct business or collect funds from the public. The CNB is not authorised by law to check whether the information contained in an application for entry into the list is true or accurate, nor does it examine compliance with the conditions for entry into the list.

in practice in actual compliance with specific requirements arising from the legislation and internal regulations, which is also confirmed by long-term findings obtained in on-site examinations.

The CNB also dealt with the valuation of financial instruments in individual funds' portfolios and the quality of disclosing information about financial instruments in accordance with the IFRS requirements in the notes to the financial statements. The findings of the examination, in particular a summary of the main findings during the review of annual reports and valuation of investment funds' assets, are communicated to the market on an ongoing basis. The CNB also explained the principles of valuation of investment fund assets at a seminar organised for members of the Capital Market Association, which took place in autumn 2022.

In 2022, the CNB conducted planned inspections of major managers of both standard funds and funds for qualified investors. Shortcomings were identified in personnel policy, especially in inadmissible concurrent activities, the time provision for performing key positions and the delegation of activities, and in the valuation of financial instruments in accordance with IFRS. The low level of quality of internal regulations and economic analysis of benefits of trades was also often found. The CNB also commenced an inspection in a non-bank depository given the growing importance of this market segment and also with regard to the application of the principle of a consistent supervisory approach to both bank and non-bank depositories.

The CNB opened 51 enforcement proceedings in the area of management companies and investment funds in 2022, with 48 decisions becoming final and conclusive. Fines were imposed in nine cases, and in 37 cases, a decision was made to impose fines and delete from the register persons conducting asset administration comparable to asset management. An autonomous investment fund licence was withdrawn in one case, and proceedings were discontinued in one case. The highest fine of CZK 5 million was imposed on Diversity Capital a.s. for collecting funds from the public for the purpose of joint investment without having the relevant licence. The fines imposed in this sector totalled CZK 7,620,000.

### III.6 SECURITIES ISSUES AND REGULATED MARKETS

In 2022, the CNB's main approval activities in this segment again included approvals of securities prospectuses and the conduct of licensing administrative proceedings in the market infrastructure area. Supervision focused mainly on the activities of market infrastructure entities. In the case of securities issuers, the focus was on compliance with the information duty (reviewing the content of annual and semi-annual reports of all supervised issuers and reviewing in detail the application of IFRS international accounting standards in the financial statements of selected issuers) and compliance with obligations in public offers of securities.

Securities of 105 companies<sup>30</sup> (compared to 110 at the end of 2021), of which 76 were fully subject to CNB supervision as regards compliance with information duties,<sup>31</sup> were admitted to trading on a regulated market as of the end of 2022. Securities of 10 issuers (bonds in seven cases, shares in three cases) were newly admitted to trading on a regulated market in 2022. By contrast, securities of 15 issuers were excluded from trading; three of them were shares excluded at the decision of the issuer or regulated market operator and 12 were bonds excluded because of due or early redemption.

The number of supervised market infrastructure entities was unchanged in 2022. There continued to be three trading systems operating in the roles of operators of regulated markets, multilateral trading facilities and organised trading systems (Burza cenných papírů Praha<sup>32</sup>, a.s., RM-SYSTÉM, česká burza cenných papírů a.s. and 42 Financial Services, a.s.), two operators of settlement systems with settlement finality (Centrální depozitář cenných papírů, a.s., and the CNB as the operator of the Short-Term Bond System), one

<sup>30</sup> This number includes all issuers (both domestic and foreign) whose securities are admitted to trading on a regulated market in the Czech Republic, issuers based in the Czech Republic whose securities are admitted to trading on a regulated market in another EU Member State, and also issuers based outside the Czech Republic whose securities are admitted to trading on a regulated market in the Czech Republic.

<sup>31</sup> The remaining cases were issuers whose home supervisory authority was the supervisory authority of another EU Member State (7) or issuers whose home supervisory authority was the CNB but enjoyed one of the exemptions from the information duties (22).

<sup>32</sup> On the basis of registration in 2020, the Prague Stock Exchange also acts as an administrator of the indices used as benchmarks for the PSE (PX indices).



central depository (Centrální depozitář cenných papírů a.s.), and one benchmark administrator (Czech Financial Benchmark Facility, s.r.o., the Prague Interbank Offered Rate – PRIBOR administrator).

The CNB performed checks of annual and half-yearly reports of all more than 70 issuers and detailed checks of the application of IFRS international accounting standards in selected financial statements. After the CNB pointed out the shortcomings, those shortcomings identified in issuers' reporting duties were eliminated by the supervised entities.

A total 108 administrative decisions on the approval of documents connected with securities issues (securities prospectuses and supplements thereto) were issued in 2022, compared to 93 in 2021. They mostly involved bond prospectuses for corporate and bank bonds. This figure also includes nine share prospectuses for offers to the public (five of which were offers using the Prague Stock Exchange's START – Public Offer system), and a prospectus for SPAC shares was approved in one case<sup>33</sup>. A large number of draft prospectuses and other documents relating to public offers (final terms, advertisements relating to public offers) were reviewed outside the administrative proceedings. The CNB granted two licences for a covered block<sup>34</sup> in the case of covered bond issuers.

The CNB supervised compliance with legislation in the area of public offers of securities throughout 2022. More specifically, this involved correcting several incorrect advertisements in public offers based on approved prospectuses and examining 27 cases of suspected public offerings of bonds without a valid approved prospectus.

In the market infrastructure area, the CNB approved two changes to the rules of the Central Securities Depository Prague (CSDP) settlement system in 2022 in connection, among other things, with the application of settlement discipline and the granting of eligibility for Eurosystem credit operations by the ECB. The CNB conducted its regular review and assessment of compliance of the CSDP with CSDR. In addition, it conducted six proceedings with the Prague Stock Exchange concerning the suspension of exemptions from the market transparency obligation under the MiFIR and assessed changes in trading rules.

The CNB also assessed 11 notifications of the intention of non-financial groups to apply the exemption from the obligation to report to a trade repository pursuant to Article 9(1) of EMIR. Data on internalised settlements (settlement directly with traders outside the settlement system) were assessed quarterly and the related report was sent to ESMA.

In 2022, ten enforcement proceedings were opened in the area of issuers and regulated markets and nine decisions to impose a fine became final and conclusive. Fines were imposed for breach of obligations in public share offers in three cases, for failure to notify voting rights in three cases, for failure to provide assistance in two cases, and for failure to publish the annual report in one case. The highest fine of CZK 2 million was imposed on Energy financial group a.s. for a public offer of securities without publishing a prospectus. The fines imposed totalled CZK 3,915,000.

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

At the end of 2022, the CNB registered 22 payment institutions,<sup>35</sup> 11 established foreign payment institutions (five established through a branch and six through an appointed agent), three electronic money institutions, four established foreign electronic money institutions (one through a branch and three through an appointed agent) and three payment account information administrators. A new electronic money institution licence was issued to ThePay.cz, s.r.o.

A total of 15 new licence applications were filed in the payment services sector in 2021, including eight applications for a payment institution licence or a change thereto, five for a small-scale payment service

<sup>33</sup> Special Purpose Acquisition Company.

<sup>34</sup> The separately registered part of the covered bond issuer's assets made up of the cover pool and debt that this portfolio is used to cover.

<sup>35</sup> Direct Fido Payments s.r.o. was granted a payment institution licence in December 2021, but the decision did not take effect until January 2022. Therefore, the number of payment institutions increased by one in 2022.

provider licence or a change thereto and one for a small-scale electronic money issuer licence. In addition, one application was submitted for a dynamic currency conversion provider licence. The number of new applications decreased slightly for the second consecutive year.

In 2022, the CNB's supervision of non-bank payment service providers focused largely on compliance with the requirements laid down in the Payment System Act<sup>36</sup> and the amended implementing Decree No. 7/2018 Coll.<sup>37</sup> regarding information security and operational and ICT risk management. In this context, supervisory work focused mainly on systemically important payment institutions. The CNB used supervisory calls or face-to-face meetings to communicate to them the shortcomings identified, emphasising not only the need to meet legislative requirements, but also the practical aspect of risk management in terms of benefits to the companies themselves (reducing the risk of fraud or data loss, etc.). Supervisory findings revealed that in practice risk management is often not a natural part of the day-to-day work of supervised entities. In many cases, they only take a formal approach to such duties. It will therefore be necessary to continue supervisory activities focused on risk management, including security and ICT risks.

As part of the preparation of regulatory technical standards, which complement the DORA regulation,<sup>38</sup> and the related cooperation provided to the European Supervisory Authorities, the CNB conducted a thematic survey on ICT service outsourcing. The aim of the survey was to identify major companies providing ICT services to supervised entities across the EEA.

In early 2022, following the revocation of the banking licence of Sberbank CZ, a.s., off-site surveillance was conducted to investigate the impact of what had happened on the non-bank payment service providers and electronic money issuers sector. The investigation revealed no risk to the client funds entrusted for the performance of payment transactions. In connection with the protection of payment service users' funds, the CNB also conducted a thematic survey on compliance with duties regarding protection of entrusted funds by companies that have declared a means of protecting funds than depositing these funds in separate accounts with banks or credit unions.<sup>39</sup> However, in practice, alternative ways of protecting funds are rarely used in the Czech Republic.

Following an amendment to the Payment System Act, the CNB also conducted a thematic survey concerning compliance with the duty of entities operating in payment systems which are acceptors of payment cards (acquiring entities) to inform payers of the commission and exchange rate in cases where dynamic currency conversion is offered to the payer using a payment terminal in a brick-and-mortar shop or a gateway. At the same time, the CNB identified and contacted independent ATM operators to determine whether they offer dynamic currency conversion in their ATM network and whether they are compliant with the duty to obtain authorisation of a dynamic currency conversion service provider as a new type of supervised entity for this activity. In 2022, the CNB also assessed compliance with the capital requirements by payment institutions and electronic money institutions and compliance with the limits on the volume of payment transactions by small-scale payment service providers and small-scale electronic money issuers.

As regards on-site examinations, the regularly updated AML/CFT risk profiles of individual supervised entities proved effective again in 2022. Significant and serious systemic shortcomings in the provision of payment services were detected in the entities selected for examination. Compliance with duties relating to measures against money laundering and terrorist financing was assessed as fully unsatisfactory in all the cases examined. This is due mainly to the problematic focus of some small-scale payment service providers (or small-scale electronic money issuers) on risky foreign clients from non-EU countries and consequently to the absence of systemic measures to effectively mitigate the potential risks associated with money laundering. The focus on foreign clients also raises doubts as to whether these entities provide payment services only in the Czech Republic. The protection of funds, which in most cases was insufficient in relation to the value of

<sup>36</sup> Act No. 370/2017 Coll., on the Payment System, as amended.

<sup>37</sup> Decree No. 7/2018 Coll., on certain conditions of the pursuit of business of payment institutions, payment account information administrators, small-scale payment service providers, electronic money institutions and small-scale electronic money issuers, as amended.

<sup>38</sup> Regulation (EU) 2022/2554 of 14 December 2022 on digital operational resilience for the financial sector.

<sup>39</sup> Investing client funds in liquid low-risk assets or the conclusion of an insurance policy or other comparable safeguard.



funds entrusted by clients, also proved problematic. In selected cases, on-site examinations focused specifically on risk management, in particular information security and management of operational and ICT risk, with the aim of checking practical aspects of the configuration of processes and the actual application of the security measures described in the documents submitted in licensing proceedings.

The CNB opened 24 enforcement proceedings pursuant to the Payment System Act in 2022, with 23 decisions becoming final and conclusive. Fines were imposed in 11 cases, small-scale payment service provider licences were revoked and fines imposed in two cases, a small-scale electronic money issuer licence was withdrawn and a fine was imposed in one case, small-scale payment service provider licences were revoked in six cases, and proceedings were discontinued in three cases. The highest fines of CZK 300,000 were imposed on EasyChange s.r.o. (for breach of duties in the area of the governance system, information duties and duties pursuant to the AML Act) and Mortons s.r.o. v likvidaci (for depositing funds intended for payment transactions with banks not authorised by law, or in simplified terms, with banks outside the EU). The fines imposed totalled CZK 1,765,000.

### III.8 SUPERVISION OF CONSUMER CREDIT PROVIDERS

Consumer credit is provided by most credit institutions and by non-bank consumer credit providers. At the end of 2022, the CNB supervised 104 consumer credit providers (81 non-bank providers and 23 credit institutions). Twisto payments a.s. and AS Inbank, odštěpný závod, started operating in 2022. D.S. Leasing, a.s., IDCC EUROPE Finance, a.s., VITACREDIT s.r.o., Sberbank CZ, a.s., and Equa bank a.s. closed down in 2022.

As part of its supervisory work, the CNB received 388 submissions from the public for investigation, up by 50 compared to 2021. The increase was due to the termination of the activities of Sberbank CZ, a.s. Most of them were questions on how to deal with the situation. Consumers also sent alerts of unauthorised lending, in most cases by companies based abroad or at mass addresses. Consumers mostly contacted the CNB only after they had sent an advance for the provision of consumer credit, after which the company offering the loan had stopped communicating. The submissions also often concerned the provision of misleading or incomplete information or failure to provide information or documents, including delays in obtaining them. Consumers complained, especially in the area of microcredit, about the unacceptably high interest rate and APRC, excessive and unjustified debt enforcement, and provision of consumer credit to an ineligible person, as well as insufficient assessment of creditworthiness by the consumer credit provider.

In the case of non-bank consumer credit providers, the CNB conducted a supervisory survey mapping the number of consumers who continued to exercise the option of postponing instalments after the loan moratorium had ended. This included verifying whether consumer credit providers still allowed consumers to postpone instalments on an individual basis. The survey revealed that providers were allowing borrowers to postpone instalments even after the loan moratorium had ended. However, the number of such applicants was a few thousand lower than when the loan moratorium was in effect. Based on an assessment of the downward trend in applications, the collection of information on postponement of instalments introduced during the coronavirus pandemic was ended in agreement with Ministry of Finance representatives. It contained information on the number of applications received, approved and rejected in the given month, on the number and volume of new consumer credit and, in the case of non-bank providers, on the number of complaints received and how they were settled.

In 2022, the CNB conducted a supervisory survey in credit institutions aimed at verifying the configuration of debt recovery procedures. The survey revealed that companies recover their claims using their own process and only pass them on to external agencies in case of non-recovery. Most companies apply an individual approach to the client and accept partial payment of the outstanding debt rather than call the loan.

As regards non-bank consumer credit providers, supervisory examinations continued, which were aimed at assessing whether employees of companies and their trading partners comply with the statutory requirements for professional qualifications. As part of its investigations, the CNB assessed more than 5,000 persons. Shortcomings were identified mainly in employees of non-bank providers' trading partners. These included failure to comply with the condition of continuous experience, failure to submit evidence of educational

attainment or evidence proving an exemption granted by law, and the lack of a certificate of having passed a professional examination. In the case of persons on whom it was not possible to impose remedial measures, companies declared the termination of cooperation.

The CNB completed examinations of consumer credit providers authorised to provide consumer credit secured by property in 2022. A total of 29 non-bank providers operate in this segment. As in other provider segments, the examinations concentrated on whether procedures for assessing creditworthiness are being followed and on checking rules and procedures for the acceptance and valuation of collateral on consumer credit for house purchase, and in particular on determining whether mortgage loans not tied to a specific property are over-collateralised.

In 2022, the CNB opened 12 new enforcement proceedings under the Consumer Credit Act (ten against non-bank consumer credit providers and two against bank consumer credit providers) and 15 decisions became final and conclusive. Fines were imposed in 12 cases. A fine was imposed and an accredited entity licence was revoked in the case of one accredited entity – Institut aplikovaného práva, z.s. Proceedings were discontinued in two cases. The largest fine of CZK 10 million was imposed on UniCredit Bank Czech Republic and Slovakia, a.s., for not deducting interest costs from total consumer credit costs for consumers who had repaid their consumer credit for house purchase early. The fines imposed in this sector totalled CZK 36,550,000.

### III.9 SUPERVISION OF RETAIL DISTRIBUTORS

Last year, the CNB conducted a comprehensive update of the sets of examination questions to test the expertise of distributors of financial products in all three areas (insurance, investment and consumer credit), including the addition of questions under the PEPP regulation. The sets of test questions are used by accredited entities (persons authorised by the CNB to examine financial services providers or intermediaries) to test expertise. As of 31 December 2022, there were 73 of these entities, some of which are authorised for up to four sectors.<sup>40</sup> The highest number of professional examinations was taken by insurance distributors in 2022. The highest test success rate was recorded in the consumer credit area (see Table A.1).

**Table A.1 Number of professional examinations taken in 2022 and their success rate**

Sector/legislation	Total tests	Of which successful	Success rate
Consumer Credit Act	9,407	6,229	66.2%
Capital Market Undertakings Act	8,003	4,705	58.8%
Act on Insurance and Reinsurance Distribution	17,735	9,812	55.3%

The period for extending the authorisation of financial market entities ended on 29 December 2022. The renewal fees introduced by sectoral laws and the Act on Administrative Fees play a positive role in clearing the relevant lists of those entities who do not or no longer intend to operate (see Table A.2 below). The largest share of defunct entities was recorded for independent intermediaries pursuant to the Consumer Credit Act (6.0%). A total of CZK 37,283,000 was paid in administrative fees.

<sup>40</sup> In the supplementary pension savings sector, individual accredited entities create the sets of examination questions.

**Table A.2 Financial market entities which ceased to operate due to non-payment of the administrative fee for extending the authorisation**

	Number of entities subject to extension as of 1 October 2022	Number of defunct entities due to unpaid fees	Share of defunct entities (in %)
<b>Intermediaries pursuant to the Act on Insurance and Reinsurance Distribution</b>	29,174	1,037	3.6
of which:			
Independent intermediaries	809	10	1.2
Tied agents	24,874	884	3.6
Supplementary insurance intermediaries	3,491	143	4.1
<b>Intermediaries pursuant to the Capital Market Undertakings Act</b>	12,619	423	3.4
of which:			
Investment intermediaries	138	3	2.2
Tied agents	12,481	420	3.4
<b>Entities pursuant to the Consumer Credit Act</b>	19,144	842	4.4
of which:			
Non-bank consumer credit providers	5	0	0
Independent intermediaries	284	17	6.0
Tied agents	16,747	740	4.4
Intermediaries of specific-purpose consumer credit	2,108	85	4.0
<b>Intermediaries pursuant to the Supplementary Pension Savings Act</b>	12,620	437	3.5
of which:			
Independent intermediaries	99	2	2.0
Tied agents	12,521	435	3.5

The CNB examined compliance with the legal requirements for the distribution of financial products and also focused on the activities of accredited entities. It also conducted thematic surveys on, for example, checking compliance with professional qualifications, the obligation for financial services intermediaries to have professional liability insurance and information duties in the area of sustainable finance. Thematic surveys focusing on checking data provided by retail distributors of financial products under the new reporting duty.

As regards insurance distribution, the most frequent shortcomings pertained to compliance with the rules of conduct towards clients and communication with clients. The CNB identified shortcomings in the preparation of records of conduct towards clients and in obtaining information about the clients' requirements and needs and the recommendations based on such information for arranging insurance or advice regarding the choice of a suitable unit-linked life insurance product. Shortcomings were also identified repeatedly in compliance with information duties to clients, especially in the provision of pre-contract information about insurance intermediaries, where the provision of unclear or false information was identified to a higher degree. The CNB also identified numerous shortcomings regarding information provided on insurance intermediaries' website and in the CNB's register.

In the intermediation of consumer credit, the CNB identified shortcomings relating to information duties and, to a greater extent, identified non-compliance with these duties sufficiently in advance of the intermediation of consumer credit. Inaccurate or incorrect pre-contract information was provided in individual communication with clients. Shortcomings were also identified in the notification of changes in data entered in the CNB register

and in the area of checking the professional qualifications of tied agents under the Consumer Credit Act by independent consumer credit intermediaries.

As regards investment intermediation, the number of submissions made by the public relating to the activities of investment intermediaries and their tied agents increased more significantly. The CNB identified shortcomings pertaining to compliance with the rules of conduct towards clients, in particular insufficient provision of information to clients regarding the risks related to the investment and unclear information about the status of tied agents and the investment services they provide. Shortcomings were also identified in product governance, the governance of the distribution network by investment intermediaries, the keeping of records of investment intermediaries, and the storing of documents and records of investment services and transactions. Shortcomings in the governance systems of investment intermediaries were identified to a greater extent in on-site examinations.

The situation in the area of supplementary pension savings distribution has stabilised since last year. The minor shortcomings most often identified related to intermediation of supplementary pension savings with professional care. In addition, shortcomings were found in compliance with information duties to clients.

The CNB also paid attention to the supervision of accredited entities and checked, among other things, whether the accredited entities had duly notified the CNB of changes to facts that are the conditions for granting accreditation (e.g. material, organisational and personnel prerequisites). Any non-compliance with these requirements was further addressed with accredited entities. In its on-site examinations, the CNB found higher levels of non-compliance by accredited entities with the procedure set out in examination rules when organising professional examinations.

In 2022, more than one thousand financial services intermediaries submitted information to the CNB using a new statement for financial services intermediaries. The CNB organised an intensive information campaign focusing on reporting intermediaries prior to the submission of the first statement. The deadline for submission was 31 March 2022. The CNB actively checked compliance with the reporting duty and, where appropriate, sent reminders to those who failed to comply. It also checked that the reported data was correct and complete. The most important aggregated data from the statement were published on the CNB website<sup>41</sup>. The reported data were also used in follow-up thematic surveys and for risk-oriented classification of entities, among other things.

In 2022, seven enforcement proceedings were opened against insurance intermediaries pursuant to the Act on Insurance and Reinsurance Distribution, and eight decisions became final and conclusive. Fines were imposed in six cases, one of which was imposed pursuant to the inspection code. A fine was imposed and a licence revoked for the pursuit of business of an accredited entity in one case, and a fine was imposed and an independent intermediary licence was revoked in one case. The highest fine of CZK 400,000 was imposed on Klikpojisti.cz, s.r.o. for intermediation of insurance contracts without ensuring that its employees brokering insurance met the conditions of trustworthiness. Fines in this segment totalled CZK 1,120,000. In addition, nine enforcement proceedings were opened pursuant to the Act on the CNB for violation of the reporting duty. Six decisions became final and conclusive, with fines being imposed in all cases. The fines imposed under the Act on the CNB amounted to CZK 240,000.

Pursuant to the Capital Market Undertakings Act, seven enforcement proceedings were opened in the distribution area and nine decisions became final and conclusive in 2022. Fines were imposed in six cases, an investment intermediary licence was revoked in one case, and the proceedings were discontinued in two cases. The highest fine of 3,500,000 CZK was imposed on Imperium Finance s.r.o. for failure to provide key information to clients, failure to comply with the information duty to the CNB and the provision of investment services for illegal products. The fines imposed totalled CZK 5,100,000.

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<sup>41</sup> For details see <https://www.cnb.cz/cs/dohled-financni-trh/vykon-dohledu/informacni-povinnosti/vykaznictvi-zprostredkovatelu-financnich-sluzeb-vuci-ceske-narodni-bance/agregovana-data-z-vykazu-2022/> (in Czech only).

In 2022, the CNB opened one enforcement proceeding against consumer credit intermediaries, and three decisions became final and conclusive. A fine was imposed in one case, a fine was imposed and an independent consumer credit intermediary licence was revoked in one case, and administrative proceedings were discontinued in one case. The highest fine – CZK 250,000 – was imposed on Lucrum Credit Czech s.r.o. for offering consumers the possibility to arrange consumer credit via a web application without having the relevant licence. In addition, two enforcement proceedings were opened pursuant to the Act on the CNB for violation of the reporting duty, and both decisions became final and conclusive. Fines of CZK 30,000 were imposed in both cases. The fines imposed in this sector totalled CZK 340,000 in 2022.

### III.10 SUPERVISION OF BUREAUX DE CHANGE

The CNB registered 857 bureaux de change at the end of 2022, and 22 bureaux de change were granted licences, while 28 terminated their activity.

Supervision of bureaux de change consisted mostly of on-site examinations, which again last year focused mainly on examining the systemic configuration of, and compliance with, preventive measures against money laundering and terrorist financing. Proper bureau-de-change transaction record-keeping, which is also used as a basis for verifying compliance with the information duty to the CNB, was also an integral part of the examinations. Last but not least, mystery shopping inspections checked compliance with the duties relating to withdrawal from exchange transaction agreements (cancellation) and the publication of complete and correct information on published exchange rate lists.

In connection with the duty to report changes in the information provided in an application for a bureau de change licence, supervisors also focused on verifying and assessing the trustworthiness of the managers and actual owners of bureaux de change. Submissions received from the public were also investigated and dealt with. Given the easing of the coronavirus pandemic and the rise in foreign tourists to the Czech Republic, the number of complaints about bureaux de change increased, in particular complaints about unfavourable exchange rates. Following the outbreak of war in Ukraine, a number of queries and notifications were also recorded regarding the possibility (or lack thereof) of exchanging hryvnias for korunas.

In 2022, a total of six enforcement proceedings were opened for violation of the Act on Bureau de Change Activity and seven decisions became final and conclusive. Fines were imposed in five cases, a bureau de change licence was revoked in one case, and the proceedings were discontinued in one case. The highest fine of CZK 100,000 was imposed on UAF, CZ s.r.o. for failure to provide specified information to the CNB. In addition, the CNB opened four penalty proceeding against bureaux de change under the AML Act in 2022. Under the AML Act, two decisions became final and conclusive, with fines being imposed in both cases. The highest fine imposed was CZK 250,000. The fines imposed in this sector totalled CZK 680,000.

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

The CNB opened two enforcement proceedings under the Act on the Circulation of Banknotes and Coins in 2022. Two decisions also became final and conclusive. Fines were imposed in both cases. The highest fine of CZK 250,000 was imposed on Oberbank AG for failure to exchange banknotes damaged in a standard way for banknotes fit for recirculation. The fines imposed in this sector totalled CZK 350,000.

### III.12 CROSS-BORDER PROVISION OF SERVICES

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



## IV. INTERNATIONAL COOPERATION

As the financial market supervisory authority, the CNB is part of the European System of Financial Supervision (ESFS) through membership of the European Supervisory Authorities (ESAs) for the banking industry (EBA), insurance and occupational pensions (EIOPA) and securities and markets (ESMA) and the European Systemic Risk Board (ESRB), in which it is actively involved. The CNB is also a member of the International Organization of Securities Commissions (IOSCO), the International Association of Insurance Supervisors (IAIS), and the International Organisation of Pension Supervisors (IOPS), which enables it to actively participate in international discussions on regulation and supervision and gives it a say in the creation of international standards and best practices in this area.

The CNB is also actively involved in supervisory colleges, which play an important role in increasing the effectiveness of supervision of cross-border entities. The CNB also worked closely with national supervisory authorities of other EU countries at bilateral level or within selected groups of national supervisory authorities that are in a similar position of host supervisor or from countries with a similar financial market structure. To share regulatory and supervisory experience, the CNB also provided assistance to other supervisory authorities that expressed an interest in it.

### IV.1 COOPERATION WITHIN THE EUROPEAN SUPERVISORY AUTHORITIES

In 2022, the CNB was actively involved in the work of the ESAs, which concentrated on further strengthening the convergence of supervisory practices of national supervisory authorities in the EU. In this context, the CNB was involved, among other things, in the preparation of the ESAs' draft replies to the Commission's public consultations, draft technical standards, guidelines, opinions and other methodological and explanatory documents. In 2022, the ESAs focused to a greater extent on sustainable finance and digital finance and also addressed the effects of the war in Ukraine on the financial markets. In connection with the Czech Presidency of the EU Council, the CNB hosted an external meeting of the EBA Board of Supervisors in Prague in July 2022. A regular meeting of the ESMA Board of Supervisors was also held in Prague in November where the Executive Director of the Financial Regulation and International Cooperation Department Vojtěch Belling was elected Vice Chair of ESMA from 21 November 2022 to 15 June 2024. The CNB-appointed members of the ESAs' Boards of Supervisors Zuzana Silberová and Vojtěch Belling were also actively involved in the EIOPA and ESMA boards. Other CNB representatives were involved in a number of standing committees and working groups of all three ESAs.

#### ***Geopolitical risks, including growth in risks in the energy derivatives market***

The CNB was actively involved in many of the ESAs' activities in response to the impacts of the war in Ukraine. In the context of a marked rise in market prices of energy commodities associated with high volatility, the EBA addressed, among other things, a response to the Commission's call for the minimisation of barriers for energy companies, especially in the area of liquidity requirements and collateral guarantees. Furthermore, the EBA prepared and issued a communication calling on credit institutions to pay increased attention to the risk of circumvention of sanctions and to ensure compliance with EU AML/CFT legislation. In her contributions on these topics, the CNB-appointed member of the Board emphasised that banks were providing sufficient support to energy companies at times of high price growth and that no potential changes in the regulatory framework had been identified by the EBA that would effectively ease the tight energy market situation. As regards the application of sanctions, she advocated that – in line with European AML/CFT regulation – all measures taken by financial institutions in relation to client identification should comply at all times with national legislation and the related risks identified.

CNB representatives were actively involved in coordination activities within ESMA. These included the implementation of sanctions, the monitoring of short positions, the suspension of securities trading and the assessment of cyber risk. In addition to coordination, ESMA issued, among other things, a statement on the implications of Russia's invasion of Ukraine and a statement on measures to manage the impact of Russia's invasion of Ukraine on investment fund portfolios.

***Risk reduction in the banking sector and the implementation of the Basel framework***

In 2022, the EBA continued to perform one of its main tasks, i.e. to reduce risk in the banking sector and implement the Basel III framework. CNB representatives were involved, among other things, in the preparation of the EBA regulatory technical standards on interest rate risk specifying the standardised method of interest rate risk management and regulatory technical standards specifying the conduct of stress tests by supervisory authorities in the area of net interest income. The EBA issued an annual report assessing the impact of the full implementation of the Basel III requirements. For the first time in 2022, this report mandatorily included banks representing 85% of risk-weighted assets for each EU Member State. In connection with the new prudential framework introduced for investment firms by a directive and a regulation on investment firms (IFD and IFR), CNB representatives contributed to the preparation of relevant guidelines and technical standards. The EBA, together with ESMA, published guidelines on common procedures and methodologies for the supervisory review and evaluation process (SREP) under the IFD. During its preparation, CNB representatives advocated in particular greater application of the proportionality principle.

***Sustainable finance***

The topic of sustainable finance pervaded the activities of all three ESAs in 2022. For example, the ESAs jointly issued materials to facilitate the use of the sustainability-related disclosures framework in the financial services sector. They were also involved in the preparation of ESG reporting standards under the Non-Financial Reporting Directive. In addition, they started preparations for a response to the Commission's Call for Advice on greenwashing. CNB representatives contributed to an EBA discussion paper examining ways of taking environmental and social risk into account in the regulatory framework. They emphasised that considerations of potential changes to the prudential framework should not depart from the approach of the Basel Committee on Banking Supervision. In the insurance sector, EIOPA published a proposal for a set of indicators aimed at measuring the historical and, in particular, the current level of insufficiency of insurance protection against natural disasters, with flood risk being the most important indicator for the Czech Republic. In the capital market segment, ESMA started to prepare draft guidelines on the names of funds using ESG- or sustainability-related concepts.

***Digitalisation of financial services***

In 2022, the ESAs continued preparations for the implementation of the regulation on markets in crypto-assets (MiCA) and the regulation on digital and operational resilience (DORA). At the request of the European Commission, the ESAs published technical advice on digital finance and issued a warning about high-risk and speculative crypto-assets characterised by high volatility and market price collapse. This was addressed mainly to retail investors. In 2022, the CNB was also involved in the activities of a new ESMA group focusing on practical ways to protect investors in the area of crypto-assets in the period before the MiCA regulation takes effect.

***Capital markets union (CMU)***

In 2022, ESMA continued its activities relating to the creation of a capital markets union, which included preparations for the establishment of a European Single Access Point (ESAP) for corporations' financial and non-financial information. The ESAP is designed to provide access to financial and non-financial information on entities and their products, which are published in the context of financial services, capital markets and sustainability, through a free online portal with a user-friendly interface. The CNB-appointed member of the Board recommended monitoring the practical implementation of the project so it represents real and substantial added value for potential future users rather than an unnecessary burden. Furthermore, in the context of the forthcoming revision of MiFIR, ESMA prepared a letter to the Commission assessing its proposal to establish a consolidated commercial information provider and for further changes in the areas of market transparency, transaction reporting and investor protection. ESMA also sent its recommendations to the Commission to promote the access of small and medium-sized enterprises (SMEs) to public markets and proposals to amend CCP legislation.



***EU strategic priorities in the area of financial market supervision***

According to the relevant regulations establishing the ESAs, the ESAs are obliged to identify up to two strategic EU supervisory priorities for a period of three years, which are also binding on national supervisory authorities. In 2022, the EBA identified assessing the rules of conduct towards clients and the sustainability of banks' business models as its priorities. EIOPA prioritised assessing the sustainability of insurance companies' business models and appropriate configuration of insurance companies' products and product governance. Based on the current identification of risks in the capital market area, ESMA has decided to replace the issue of costs and performance of retail investment products with a new priority to highlight transparency and clarity in the area of ESG disclosure in the financial market as of 2023 and to keep data quality as a priority. The ESAs are then asked to regularly assess whether and how national supervisors have incorporated these priorities into their supervisory practices.

***Peer review of supervisory practices in the EU***

Regular peer reviews are part of the ESAs' efforts to converge the supervisory practices of national supervisory authorities in the EU. In 2022, the EBA focused on supervisory practices in the area of management of non-performing and forbore exposures and on ICT risk management under the SREP. Within EIOPA, the CNB participated in a follow-up evaluation focusing on the propriety assessment of administrative, management and supervisory bodies and qualifying shareholders of insurance companies. The CNB complied with both the previous EIOPA recommendations aimed at completing the internal methodology for assessing credibility and the recommendation to actively supervise qualified shareholders on an ongoing basis. Within ESMA, the CNB took part in a peer review in the area of approving prospectuses. The CNB received positive assessments, especially in areas including the prospectus review, the approval process, the examination of compliance with the relevant guidelines and the provision of financial, human and operational resources.

***Cooperation between home and host supervisory authorities in cross-border provision of services by management companies***

In 2022 ESMA continued its activities aimed at improving supervision in cross-border provision of investment services and cooperation between home and host national supervisory authorities, which followed up on the conclusions of the peer review.<sup>42</sup>

**IV.2 COOPERATION WITHIN SUPERVISORY COLLEGES**

In 2022, the CNB was involved in seven supervisory colleges for European banking groups and acted as consolidating supervisory authority in one case. In the first half of 2022, the colleges focused mainly on the intensive exchange of information on the possible effects of the war in Ukraine and the related sanctions on individual banks. In addition, the yearly assessment of banks' capitalisation and risk profiles was conducted, focusing mainly on credit risk in connection with rising inflation and interest rates and persisting disruptions to international supply chains. An integral part of the work of the supervisory colleges included assessing the recovery plans of individual banking groups.

In 2022, the CNB was also involved in the activities of ten supervisory colleges for European insurance groups, which concentrated mainly on compliance with the Solvency II requirements (above all capital requirements in the context of the impacts of the war in Ukraine, risk assessments of supervised insurance companies and group internal models).

It also contributed to cooperation in the AML/CFT area at the European and international levels. This included activities in supervisory colleges for selected international financial groups and in three cases the CNB organised the colleges as the home supervisory authority. Within the EBA, the CNB sent a representative as a quality evaluator for supervision of credit institutions. CNB representatives also participated in MONEYVAL's assessments of the quality of supervision and preventive AML/CFT measures.<sup>43</sup>

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<sup>42</sup> The CNB received a positive assessment from the ESMA evaluation committee, especially as regards the CNB's procedures in the area of cooperation with other supervisory authorities and procedures for dealing with notifications received from home supervisors (see FMSR 2021).

<sup>43</sup> A regional committee within the Council of Europe which assesses the quality of AML/CFT measures.

### IV.3 COOPERATION ON INTERNATIONAL STANDARDS FOR FINANCIAL MARKET REGULATION AND SUPERVISION

The CNB is involved in international financial market regulatory and supervisory organisations, where its employees are actively involved in setting global standards and contribute to smooth cross-border cooperation, exchange of experience and the desirable degree of equivalence of regulatory and supervisory frameworks.

#### ***International Association of Insurance Supervisors (IAIS)***

Last year, the IAIS focused on measures to assess and mitigate systemic risk in insurance to increase the overall resilience of the insurance sector. Its work focused mainly on strengthening supervisory policies and their incorporation into the core methodology and IAIS framework for the effective supervision of internationally active insurance groups. The CNB was actively involved in a new round of comprehensive assessment of the situation on the global insurance market. This led to an up-to-date assessment of potential systemic risks and appropriate supervisory responses. Following the submission of a report on the results of the review to the Financial Stability Board (FSB), it was decided to end the FSB's annual identification of global systemically important insurers (G-SIIs) in favour of the comprehensive IAIS framework. Work also continued in 2022 on improving the global insurance capital standard (ICS) and on the preparation of criteria and data collection for assessing the comparability of approaches to determining the capital of insurance groups. The evaluation of supervisory authorities with regard to compliance with key principles of the insurance industry, in which the CNB participates regularly, also continued.

#### ***International Organisation of Pension Supervisors (IOPS)***

During 2022, the IOPS adopted and published the relevant recommendations and procedures as part of a project for designing, presenting and supervising pension projections. Work on risk-oriented supervision was completed. A final report on the lessons learned was also published. The use of digitalisation continued to be mapped in the supervision of pension systems. The assessments of the degree of implementation of recommended IOPS practices for integrating ESG factors in the risk and investment management of pension funds also continued. The CNB actively participated in IOPS activities by providing inputs to numerous surveys, including contributions regarding risk-oriented supervision and data collection, which is used to ensure effective supervision of pension schemes.

#### ***International Organization of Securities Commissions (IOSCO)***

The CNB was actively involved in IOSCO's activities in 2022. Last year, this international organisation focused mainly on sustainable finance, in particular on sustainability reporting rules and the prevention of greenwashing. IOSCO also dealt with rules of conduct of investment firms vis-à-vis retail clients to reduce risks in the area of digital finance, growth in cyber risk mainly in the segment of financial infrastructure linked with growth in geopolitical risks, crypto-assets and corporate bond liquidity. In the period under review, the CNB also participated in an assessment of the implementation of the IOSCO core principles regarding the status and activities of supervisory authorities and provided assistance in connection with requests for information for the purposes of supervision of cross-border entities.

# Part B — Statistical part

*Part B of the Financial Market Supervision Report complements Part A mainly with statistical information and data providing a broader overview of the conduct of CNB supervision in 2022. Reports submitted as part of the reporting duty of economic agents subject to CNB supervision are used as the primary source of the selected sectoral data. The data are updated as of 30 April 2023.*

## I. CREDIT INSTITUTIONS

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

Type of entity	As of 31 December 2021	Entries in 2022	Exits in 2022	As of 31 December 2022
<b>Credit institutions, total</b>	52	2	4	50
of which:				
Banks <sup>i)</sup>	23	0	2	21
Branches of foreign banks from EU/EEA	20	2	1	21
Branches of foreign banks from third countries	2	0	0	2
Credit unions	7	0	1	6
<b>Registered representations of foreign banks<sup>ii)</sup></b>	10	2	6	6

i) Of which five building societies.

ii) Registration of a representation of a foreign bank pursuant to Article 39 of Act No. 6/1993 Coll., on the CNB, does not entitle it to carry on business in the Czech banking sector, but only entitles it to promote the services of its head office in the Czech Republic.

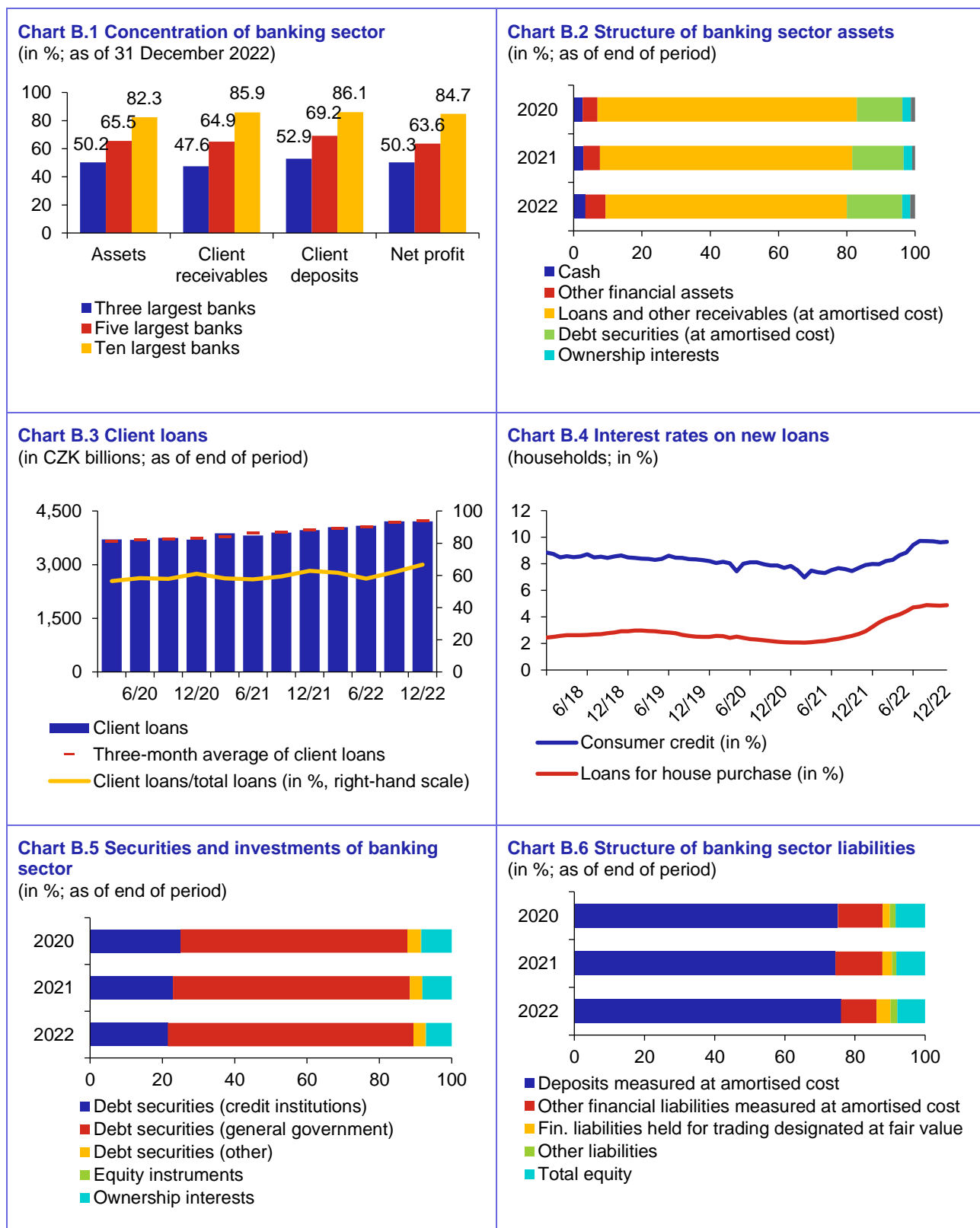
Table B.2 Selected data on the banking sector

	2020	2021	2022
<b>Balance sheet and its structure</b>			
<b>Total assets (in CZK billions)</b>	7,967.8	8,522.7	8,906.6
of which:			
Client loans	3,701.3	3,966.7	4,209.0
Securities and investments, total	1,382.1	1,599.2	1,770.5
<b>Total liabilities</b>	7,297.7	7,820.8	8,201.2
of which:			
Client deposits (measured at amortised cost)	5,309.5	5,661.0	6,028.9
Client deposits/client loans (in %)	143.5	142.7	143.2
<b>Equity</b>	670.1	701.9	705.4
<b>Liquidity</b>			
Quick assets, total (in CZK billions)	3,269.7	3,486.1	3,435.9
Quick assets/assets (in %)	41.0	40.9	38.6
Liquidity coverage ratio (LCR; in %)	197.5	172.2	184.5
<b>Asset quality</b>			
Non-performing client exposures (in CZK billions)	104.8	97.4	83.0
Non-performing client exposures/total client exposures (in %)	2.8	2.4	1.9
Coverage ratio of non-performing credit exposures by provisions (in %)	48.9	50.4	52.2

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

	2020	2021	2022
<b>Profits</b>			
Sector's after-tax profit (in CZK billions)	47.5	70.3	102.5
Financial profit (in CZK billions)	177.6	180.3	228.7
Administrative expenses (in CZK billions)	73.3	75.5	79.3
Cost-to-income ratio (CIR; in %)	47.8	48.3	39.9
Net interest margin (in %)	1.60	1.53	1.95
RoE (in %)	8.23	11.33	16.87
RoA (in %)	0.57	0.80	1.09
<b>Capitalisation</b>			
Regulatory capital, total (in CZK billions)	630.7	643.0	637.0
of which:			
Tier 1	611.8	622.9	615.5
Tier 2	18.9	20.2	21.5
Capital ratio (in %)	24.3	23.5	22.3
Tier 1 capital ratio (in %)	23.6	22.8	21.5
Leverage ratio (in %)	7.8	7.3	7.1

### Selected data on the banking sector – charts





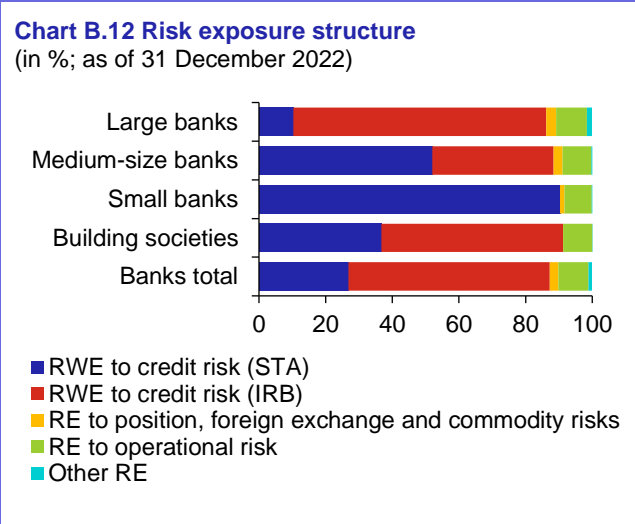
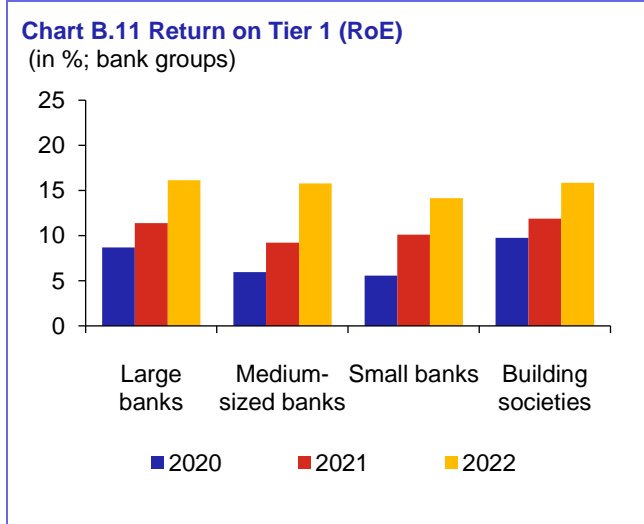
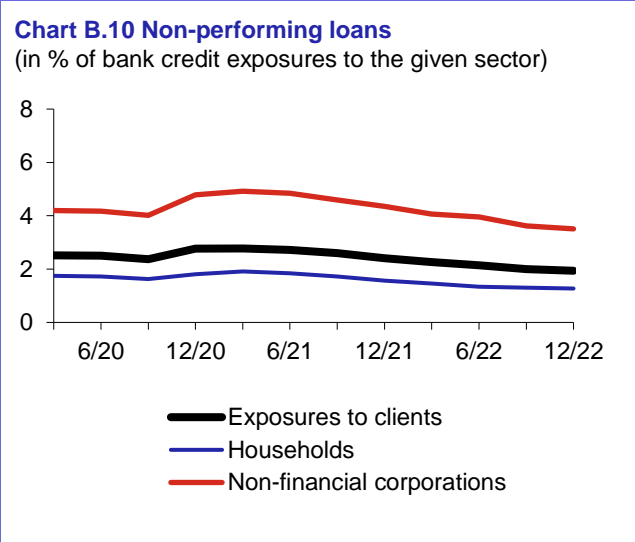
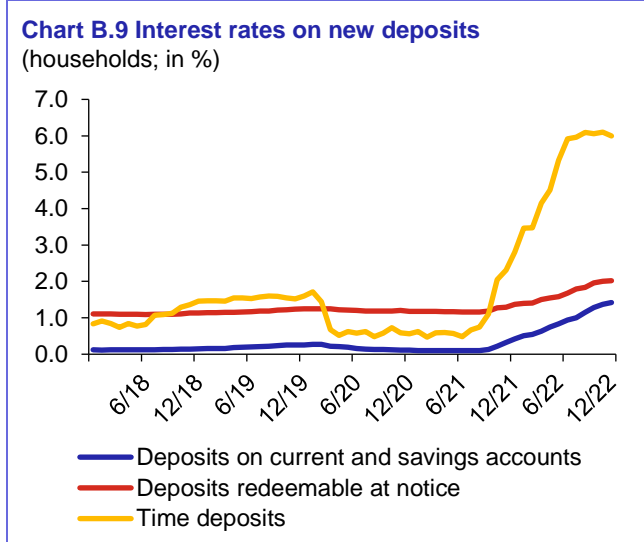
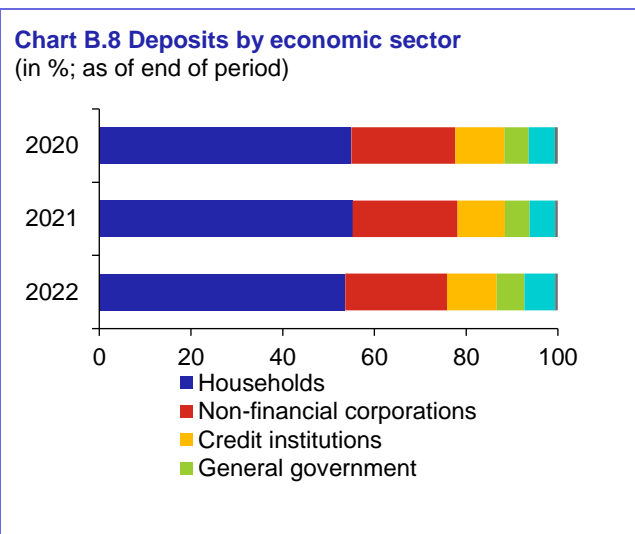
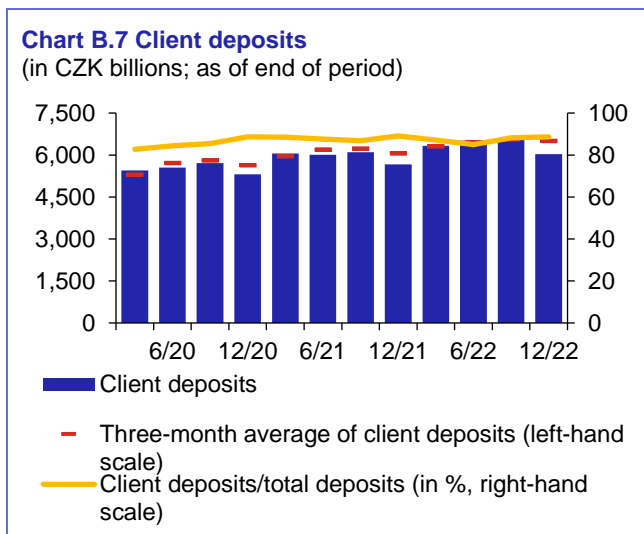


Table B.3 Selected data on the credit unions sector

	2020	2021	2022
<b>Number of credit union members</b>	11,991	11,419	11,754
<b>Total assets (in CZK millions)</b>	9,987.6	9,087.9	9,446.1
of which:			
Loans and receivables	6,427.4	5,826.1	7,092.4
<b>Liabilities (in CZK millions)</b>	8,392.5	7,488.5	7,717.0
of which:			
Deposits (measured at amortised cost)	8,133.3	7,218.9	7,461.6
<b>Equity (in CZK millions)</b>	1,595.0	1,599.4	1,729.1
Total capital ratio (in %)	29.2	26.7	24.5
Non-performing loans/total loans provided (in %)	24.1	28.9	26.1
After-tax profit (in CZK millions)	-108.6	37.9	87.1

## II. INSURANCE COMPANIES

Table B.4 Numbers of entities in the insurance sector

Type of entity	As of 31 December 2021	Entries in 2022	Exits in 2022	As of 31 December 2022
<b>Insurance companies</b>	41	0	0	41
of which:				
Domestic insurance companies <sup>i)</sup>	23	0	0	23
Branches of insurance companies from EU/EEA	18	0	0	18
<b>Reinsurance companies</b>	1	0	0	1
<b>Accredited entities</b>	26	1	2	25

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

Table B.5 Selected data on the insurance sector<sup>i)</sup>

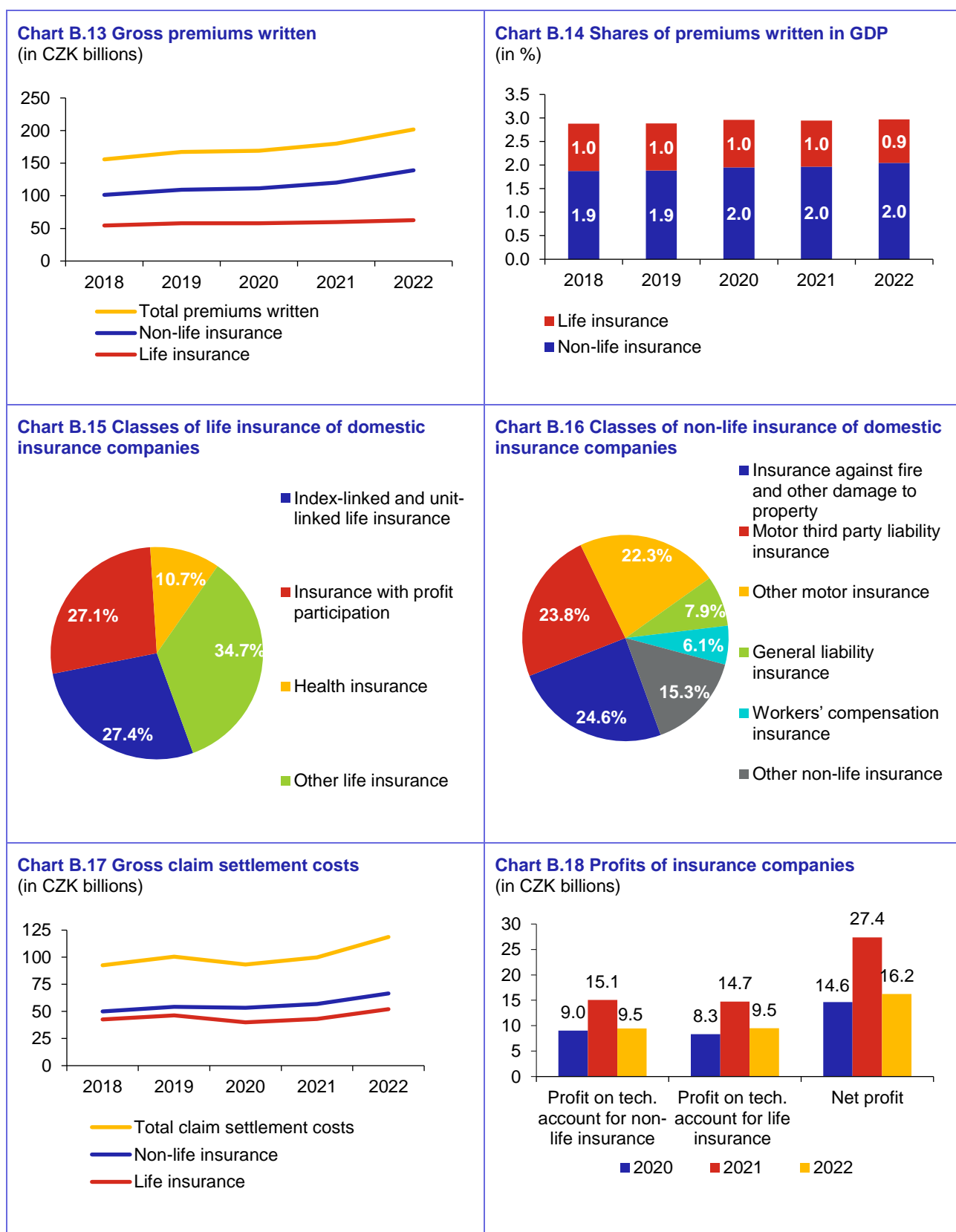
	2020	2021	2022
<b>Balance sheet and its structure</b>			
<b>Total assets (in CZK billions)</b>	473.4	506.4	475.1
<b>Total assets (domestic insurance companies)</b>	419.2	449.7	422.8
of which:			
Investments	287.0	294.0	268.4
Investments of life insurance where investment risk is borne by policy holders	77.1	86.0	75.3
<b>Total liabilities</b>	393.7	431.6	404.7
of which:			
Technical provisions	238.4	250.0	243.6
Provisions for life insurance where investment risk is borne by policy holders	100.1	110.7	97.0
<b>Equity (domestic insurance companies)</b>	75.6	71.9	67.4
<b>Premiums written</b>			
Gross premiums written (in CZK billions)	169.2	179.9	201.7
of which:			
Life insurance	57.7	59.6	62.6
of which: Insurance premiums ceded to reinsurers	4.8	5.1	5.5
Non-life insurance	111.5	120.3	139.1
of which: Insurance premiums ceded to reinsurers	29.5	32.8	38.7
<b>Claim settlement costs</b>			
Gross claim settlement costs (in CZK billions)	93.3	100.0	118.7
of which:			
Life insurance	40.0	43.1	52.1
Non-life insurance	53.3	56.9	66.6

i) The data exclude the Czech Insurers' Bureau, the Export Guarantee and Insurance Corporation and VIG RE zajišťovna, a.s.

Table B.5 Selected data on the insurance sector (continued)

	2020	2021	2022
<b>Profits</b>			
After-tax profit (in CZK billions)	14.6	27.4	16.2
RoE (in %)	18.1	36.9	23.3
RoA (in %)	3.3	5.9	3.7
Net profit/earned premiums (in %)	11.2	20.8	11.2
<b>Capital adequacy</b>			
Median ratio of eligible own funds to SCR (in %)	225	196	197
Median ratio of eligible own funds to MCR (in %)	340	319	330

### Selected data on the insurance sector – charts



### III. PENSION MANAGEMENT COMPANIES AND RETIREMENT FUNDS

Table B.6 Numbers of entities in the PMCs sector

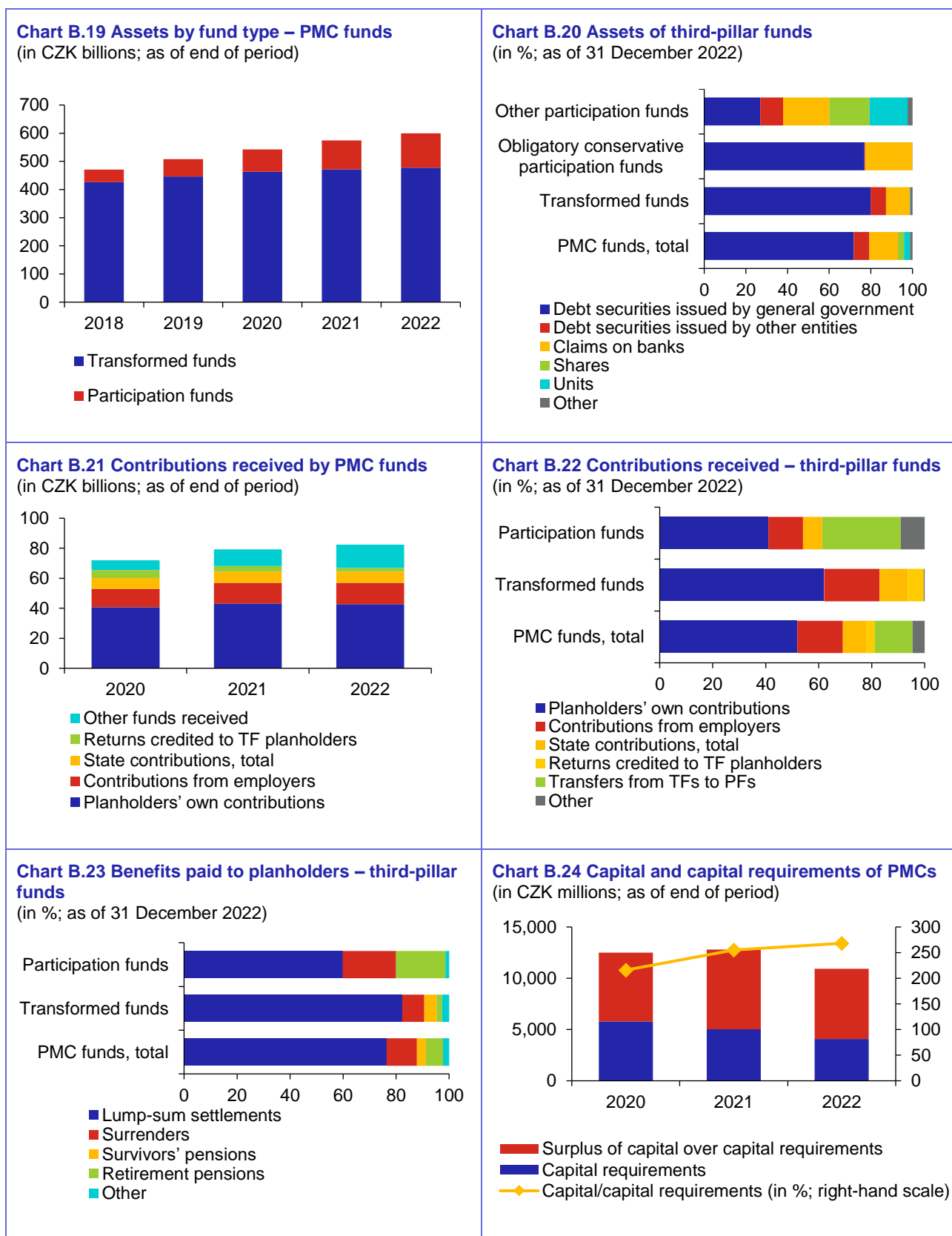
Type of entity	As of 31 December 2021	Entries in 2022	Exits in 2022	As of 31 December 2022
PMCs	9	0	0	9
Transformed funds	8	0	0	8
Participation funds	34	2	0	36
Accredited entities	12	1	1	12

Table B.7 Selected data on the PMCs sector

	2020	2021	2022
<b>Numbers of third-pillar participants (in thousands)</b>	4,415.1	4,429.9	4,392.9
of which:			
Number of supplementary pension savings planholders	1,282.9	1,467.1	1,639.7
Number of private pension scheme planholders	3,132.2	2,962.8	2,753.2
Assets of third-pillar funds (in CZK billions)	542.1	574.7	599.9
Contributions received (in CZK billions)	72.0	79.3	82.3
Capital/capital requirements	2.2	2.5	2.7
Net profit (in CZK billions)	1.9	2.0	2.1



**Selected data on the PMCs sector – charts**



## IV. INVESTMENT FIRMS

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

Type of entity	As of 31 December 2021	Entries in 2022	Exits in 2022	As of 31 December 2022
<b>Investment firms</b>	41	2	5	38
of which:				
Banks	16	0	2	14
Non-banks	25	2	3	24
<b>Branches of investment firms</b>	34	3	5	32
of which:				
Banks	15	0	1	14
Non-banks	19	3	4	18
<b>Accredited entities</b>	17	1	1	17

Table B.9 Selected data on the investment firms sector

	2020	2021	2022
T1 capital ratio (in %)	21.5	29.7	33.4
After-tax profit (non-bank investment firms; in CZK millions)	1,003.3	1,122.7	1,189.7

## V. MANAGEMENT COMPANIES AND INVESTMENT FUNDS

Table B.10 Numbers of capital market entities

Type of entity	As of 31 December 2021	Entries in 2022	Exits in 2022	As of 31 December 2022
Management companies	41	3	0	44
Main administrators	1	0	0	1
Branches of foreign management companies	3	0	0	3
<b>Investment funds with legal personality</b>	213	50	13	250
of which:				
Autonomous funds	30	1	4	27
<b>Mutual funds</b>	253	36	5	284
Depositories	9	0	0	9
Entities conducting asset administration comparable to asset management pursuant to Article 15 of the AMCIF <sup>44</sup>	340	102	59	383

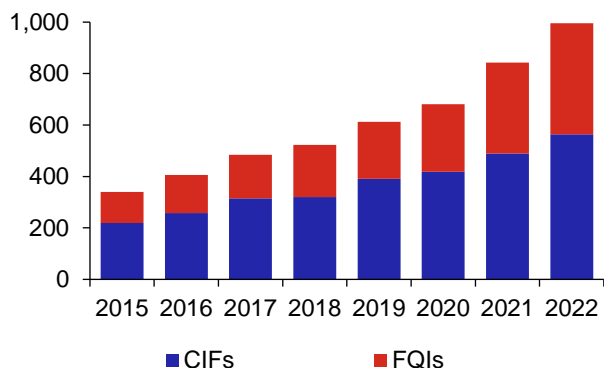
Table B.11 Selected data on the investment sector

	2020	2021	2022
<b>Assets managed by CIFs (in CZK billions)</b>	418.8	489.0	564.5
of which:			
Bond funds	113.5	111.2	191.2
Mixed funds	159.5	194.4	179.5
Equity funds	88.4	110.0	104.6
Money market funds	0.0	0.0	0.0
Real estate funds	56.4	72.0	86.9
Other funds	1.0	1.4	2.3
<b>Assets managed by FQIs (in CZK billions)</b>	261.7	353.4	431.6
Capital/capital requirements of management companies	4.8	3.6	3.3
Net profit of management companies (in CZK billions)	1.2	1.6	1.9
Net sales/redemptions (in CZK billions)	15.3	53.1	95.0

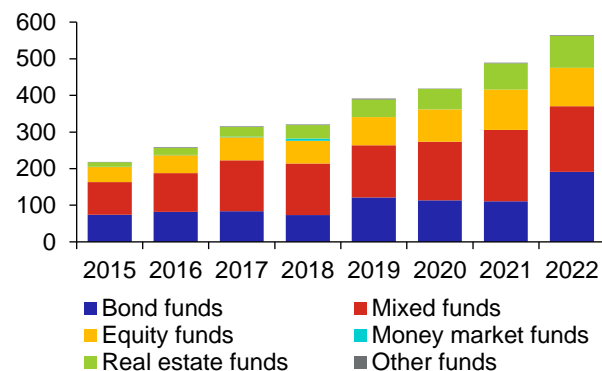
<sup>44</sup> An administrator pursuant to Article 15 of the AMCIF is a registered entity without a licence from the CNB that is not subject to CNB supervision.

### Selected data on management companies and investment funds – charts

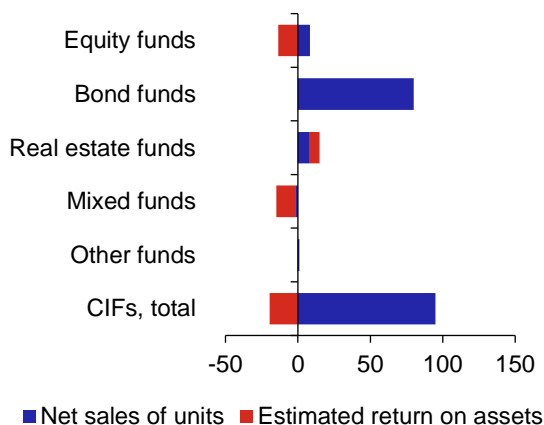
**Chart B.25 Assets of domestic investment funds**  
(in CZK billions; as of end of period)



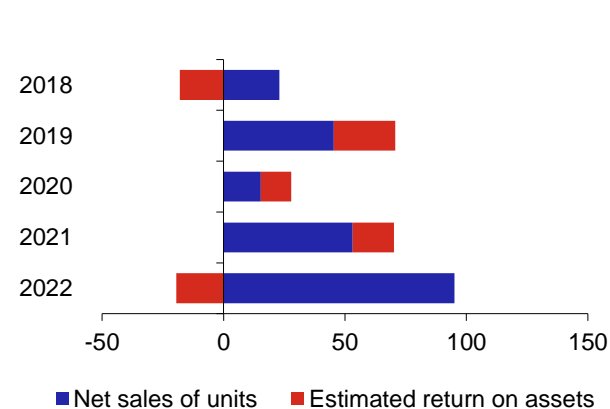
**Chart B.26 Assets by fund type – CIFs**  
(in CZK billions; as of end of period)



**Chart B.27 Decomposition of change in assets by fund type**  
(in CZK billions; as of 31 December 2022)



**Chart B.28 Decomposition of year-on-year change in assets – CIFs**  
(in CZK billions; as of end of period)



## VI. NUMBERS OF OTHER FINANCIAL MARKET ENTITIES

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

Type of entity	As of 31 December 2021	Entries in 2022	Exits in 2022	As of 31 December 2022
Payment institutions	21	1	0	22
Branches of payment institutions	12	1	2	11
Electronic money institutions	2	1	0	3
Branches of electronic money institutions	4	2	2	4
Payment account information administrators	3	0	0	3
Small-scale payment service providers	73	0	14	59
Small-scale electronic money issuers	16	0	3	13

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

	As of 31 December 2021	Entries in 2022	Exits in 2022	As of 31 December 2022
<b>Retail distributors of investment services</b>				
Investment intermediaries	146	2	13	135
Tied agents (capital market)	13,677	3,227	2,146	14,758
<b>Distributors of supplementary pension savings</b>				
Independent intermediaries	100	5	4	101
Tied agents (supplementary pension savings)	13,801	3,517	2,316	15,002
<b>Insurance and reinsurance distributors</b>				
Independent intermediaries	819	20	27	812
Tied agents (insurance and reinsurance)	27,553	6,365	4,756	29,162
Supplementary insurance intermediaries	1,557	60	72	1,545
<b>Consumer credit distributors</b>				
Independent consumer credit intermediaries	288	16	27	277
Tied agents (consumer credit)	18,863	3,900	3,712	19,051
Intermediaries of specific-purpose consumer credit	1,021	56	49	1,028

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

	As of 31 December 2021	Entries in 2022	Exits in 2022	As of 31 December 2022
Non-bank consumer credit providers	83	1	3	81
Accredited entities	23	1	5	19

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

	As of 31 December 2021	Entries in 2022	Exits in 2022	As of 31 December 2022
Bureaux de change	863	22	28	857

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

Type of entity	As of 31 December 2021	Entries in 2022	Exits in 2022	As of 31 December 2022
Handlers of domestic banknotes and coins	5	0	0	5

Table B.17 Number of financial services providers and funds notified to the Czech Republic under the freedom to provide services as of 31 December 2022

	2022
Notified credit institutions	460
Notified insurance companies	839
Notified foreign institutions for occupational retirement provision	0
Notified investment services providers	592
Notified central securities depositories	5
Notified UCITS funds	1,464
<b>Notified AIFs<sup>i)</sup> excluding EuVECA<sup>ii)</sup> and EuSEFs<sup>iii)</sup></b>	491
Notified EuVECA funds	132
Notified EuSEF funds	1
Notified UCITS management companies	52
Notified alternative investment fund managers	47
Notified electronic money institutions	197
Notified payment institutions	277
Notified payment account information administrators	8
Notified insurance intermediaries	5,491
Notified intermediaries of consumer credit for house purchase	11
Notified PEPPs <sup>iv)</sup>	1

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

ii) EuVECA: European Venture Capital Funds.

iii) EuSEFs: European Social Entrepreneurship Funds.

iv) PEPPs: Pan-European Pension Personal Products.



## VII. SECURITIES ISSUES AND REGULATED MARKETS

Table B.18 Numbers of issuers and market infrastructure entities

Type of entity	As of 31 December 2021	Entries in 2022	Exits in 2022	As of 31 December 2022
Issuers of securities admitted to trading on a European regulated market <sup>i)</sup>	110	10	15	105
Market infrastructure <sup>ii)</sup>	10	0	0	10

<sup>i)</sup> The figure includes all issuers (both domestic and foreign) whose securities are admitted to trading on a regulated market in the Czech Republic, issuers based in the Czech Republic whose securities are admitted to trading on a regulated market in another EU Member State, and also issuers based outside the Czech Republic whose securities are admitted to trading on a regulated market in the Czech Republic.

<sup>ii)</sup> The role of entities in the position of a regulated market operator, a multilateral trading facility operator, an organised trading facility operator, an operator of settlement systems with settlement finality, a central depository and a benchmark administrator.

Table B.19 Selected data on the securities market

	2020	2021	2022
Number of share issues (PSE)	55	55	59
Total share trading volume (PSE; in CZK billions)	125.3	140.5	166.2
Market capitalisation of shares (PSE; in CZK billions)	13,502.7	15,659.2	16,585.2
Total share trading volume (RM-S; in CZK billions)	4.5	4.8	6.0

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

	2020	2021	2022
<b>Issuers of securities admitted to trading on a regulated market in the Czech Republic</b>	107	110	105
of which:			
<b>Issuers whose home Member State is the Czech Republic</b>	98	103	99
of which:			
Issuers having their registered address in the Czech Republic	94	97	93
Issuers having their registered address in another EU Member State	3	5	5
Issuers having their registered address outside the EU	1	1	1
<b>Issuers exempt pursuant to Article 119c of the Capital Market Undertakings Act</b>	27	25	22
<b>Issuers fully subject to CNB supervision</b>	71	78	76
of which:			
Issuers having their registered address in the Czech Republic	68	73	72
Issuers having their registered address in another EU Member State	2	4	3
Issuers having their registered address outside the EU	1	1	1
Share issuers	43	44	43

## VIII. AGGREGATE INFORMATION ON SUPERVISION

**Table B.21 Numbers of examinations started by sector**

	2020	2021	2022
Banks <sup>i)</sup>	22	28	37
Credit unions	5	1	1
Insurance companies	6	10	11
PMCs and retirement funds	0	1	1
Investment firms – non-banks	1	2	2
Branches of foreign investment firms	4	2	3
Management companies and investment funds	5	3	4
Bureaux de change	5	6	6
Payment service providers	3	6	4
Electronic money issuers	0	1	0
Consumer credit providers	11	8	7
Accredited entities	6	7	2
Retail distributors	24	25	30
Handlers of domestic banknotes and coins	1	1	1

i) Including examinations started under the Act on the Circulation of Banknotes and Coins

**Table B.22 Overview of offences**

<b>Breakdown according to Article 45d(2) of the Act on the CNB</b>	2021	2022
Number of petitions received	164	208
Number of proceedings opened	97	141
Number of cases deferred	67	67
Number of proceedings discontinued	16	13
Number of final and conclusive decisions	124	133
Total fines imposed	CZK 44,900,000	CZK 66,680,000
Number of decisions waiving the imposition of a penalty	0	0
Number of appeals submitted <sup>45</sup>	25	27

<sup>45</sup> Of the total number of 27 appeals, 26 were lodged against decisions in matters. In 16 cases, decisions have already been issued – in 12 cases the appeal was rejected and the first-instance decision was confirmed, in two cases a part of the decision was reviewed but its other parts were confirmed, in one case the appeal was upheld and the proceedings were discontinued after reconsideration, and in one case the proceedings were discontinued by resolution noted in the file. In one case, an appeal was lodged against a decision on a preliminary measure. The appeal was rejected, and the decision was confirmed.

Table B.23 Penalty administrative proceedings

Legislation	Number of penalty administrative proceedings continuing from 2021	Number of penalty administrative proceedings opened in 2022	Number of penalty administrative proceedings closed in 2022	Total fines imposed (in CZK thousands)
Act on Banks and Act on Credit Unions	8	5	10	2,450
Insurance Act and Insurance and Reinsurance Distribution Act	6	8	11	1,520
Capital Market Undertakings Act	6	22	24	14,965
Act on Management Companies and Investment Funds	6	52	49	7,820
Bureau de Change Act	1	6	7	230
Consumer Protection Act	1	0	0	0
Payment System Act	12	24	23	1,765
Banknote and Coin Circulation Act	0	2	2	350
Consumer Credit Act	20	13	18	36,830
Act on Certain Measures against Money Laundering and Terrorist Financing	2	4	2	450
Act on the Czech National Bank	0	11	8	300
<b>Financial market supervision, total</b>	<b>62</b>	<b>147</b>	<b>154</b>	<b>66,680</b>

Table B.24 Financial market entities in liquidation<sup>46</sup>

Type of entity	As of 31 December 2021	Entries in 2022	Exits in 2022	As of 31 December 2022
Banks	3	1	2	2
Credit unions	5	1	2	4
Insurance and reinsurance companies	0	0	0	0
Management companies	3	0	0	3
Investment funds	7	1	0	8
Mutual funds	9	3	4	8
PMCs	0	0	0	0
Investment firms	0	1	1	0
<b>Total</b>	<b>27</b>	<b>7</b>	<b>9</b>	<b>25</b>

Table B.25 Applications for information

Type of application	2019	2020	2021	2022
Applications from foreign regulators	48	47	48	64
Applications under Act No. 106/1999 Coll., on Freedom of Information	71	49	86	85

<sup>46</sup> A total of eight entities ceased to be subject to CNB supervision as a result of the completion of liquidation: two banks (Banka Bohemia a.s. – v likvidaci, Sberbank CZ, a.s. v likvidaci, which was transferred to bankruptcy), two credit unions (Družstevní záložna PSD v likvidaci and Československé úvěrní družstvo v likvidaci, which had switched from liquidation to bankruptcy at the end of 2021), one investment firm (MTX Capital Services a.s. v likvidaci) and four mutual funds in liquidation. One bank (Sberbank CZ, a.s. v likvidaci) went into liquidation in 2022 but was immediately transferred to bankruptcy. In addition, one credit union (Družstevní záložna Kredit, v likvidaci), one investment fund (Arca Capital CEE, uzavřený investiční fond, a.s. v likvidaci), one investment firm (MTX Capital Services a.s. v likvidaci), which also completed liquidation, and three mutual funds went into liquidation in 2022.

Table B.26 Overview of submissions from the public

	2020	2021	2022
<b>Credit institutions</b>	1,071	858	1,759
of which:			
Conduct of business and consumer protection	714	662	1,371
Consumer credit provision	357	196	388
Insurance	521	452	481
PMCs and retirement funds	30	27	57
Non-bank investment firms	121	76	101
Management companies and investment funds <sup>1)</sup>	14	45	31
Money-changing activities	41	14	36
Payment service providers and electronic money issuers	36	21	46
Non-bank consumer credit providers	172	142	117
<b>Retail distributors</b>	233	229	185
of which intermediation of:			
Insurance products	149	146	91
Investment products	45	41	60
Consumer credit	35	38	31
Accredited entities <sup>47</sup>	4	4	3

i) Including similar foreign entities.

Table B.27 Central Credit Register

	As of 31 December 2019	As of 31 December 2020	As of 31 December 2021	As of 31 December 2022
<b>Number of registered borrowers</b>	641,579	642,759	642,266	641,719
of which:				
Natural persons (entrepreneurs)	322,192	317,719	312,747	309,243
Legal entities	319,387	325,040	329,519	332,476
Total volume of loans outstanding (in CZK billions)	1,869	1,897	1,957	1,974
Number of CCR application users	2,234	2,233	2,344	2,285
Ad hoc enquiries about credit commitments (thousands per year)	367	364	337	561
Number of enquiries about client credit commitments in monthly reports (thousands per year)	5,945	3,416	3,315	3,328
Number of extracts made for clients per year	460	442	456	326

<sup>47</sup> Submissions from the public referring to the activities of accredited entities are now also reported in the area of retail distributors.

## IX. THE CNB'S REGULATORY ACTIVITIES IN 2022

### CNB decrees

- Decree No. 1/2022 Coll., on applications and notifications to perform activities pursuant to the Payment System Act.
- Decree No. 2/2022 Coll., amending Decree No. 7/2018 Coll., on certain conditions of the pursuit of business of payment institutions, payment account information administrators, small-scale payment service providers, electronic money institutions and small-scale electronic money issuers
- Decree No. 115/2022 Coll., implementing certain provisions of the Pan-European Personal Pension Product Act and amending the related decrees on professional qualifications.
- Decree No. 118/2022 Coll., amending Decree No. 209/2021 Coll., on the remuneration and reimbursement of cash expenditures of liquidators of banks and credit unions.
- Decree No. 151/2022 Coll., amending Decree No. 1/2022 Coll., on applications and notifications to perform activities pursuant to the Payment System Act, and Decree No. 7/2018 Coll., on certain conditions of the pursuit of business of payment institutions, payment account information administrators, small-scale payment service providers, electronic money institutions, and small-scale electronic money issuers, as amended by Decree No. 2/2022 Coll.
- Decree No. 184/2022 Coll., amending Decree No. 244/2013 Coll., on more detailed regulation of some rules set out by the Act on Management Companies and Investment Funds, as amended by Decree No. 52/2016 Coll.
- Decree No. 185/2022 Coll., amending Decree No. 246/2013 Coll., on the statute of a collective investment fund.
- Decree No. 227/2022 Coll., amending Decree No. 308/2017 Coll., on the more detailed regulation of certain rules in the provision of investment services
- Decree No. 230/2022 Coll., amending Decree No. 346/2013 Coll., on reporting by banks and foreign bank branches to the Czech National Bank, as amended.
- Decree No. 251/2022 Coll., amending Decree No. 234/2009 Coll., on protection against market abuse and on transparency, as amended by Decree No. 191/2011 Coll. and Decree No. 159/2016 Coll.
- Decree No. 252/2022 Coll., amending Decree No. 2/2019 Coll., on records of covered blocks.

### Selected official information documents and other communications

- Official Information of the Czech National Bank of 10 February 2022 on the repealing of some of the CNB's official information in the area of prudential rules for banks, branches of foreign banks from third countries, credit unions, investment firms, financial holdings and electronic money institutions (No. 3/2022 CNB Bull.).
- Official information of the Czech National Bank of 31 March 2022 regarding the performance of the activities of investment firms and some other entities – information disclosure (No. 7/2022 CNB Bull.).
- Official Information of the Czech National Bank of 3 August 2022 repealing CNB Official Information regarding the business of investment firms – the application of the supervisory authority's overall discretion to exclude exposures from concentration risk limit (No. 16/2022 CNB Bull.).
- CNB information of 11 February 2022 on EBA Revised Guidelines on stress tests of deposit insurance schemes.
- CNB information of 17 February 2022 on EBA Guidelines on recovery plan indicators.

- CNB information of 1 April 2022 on EBA Guidelines on the delineation and reporting of available financial means of deposit guarantee schemes.
- CNB information of 8 April 2022 on EBA Guidelines on a common assessment methodology for granting authorisation as a credit institution under Article 8(5) of Directive 2013/36/EU.
- CNB information of 8 April 2022 on EBA Guidelines on cooperation and information exchange between prudential supervisors, AML/CFT supervisors and financial intelligence units under Directive 2013/36/EU.
- CNB information of 12 May 2022 on EBA Guidelines on sound remuneration policies under Directive (EU) 2019/2034.
- CNB information of 12 May 2022 on EBA Guidelines on internal governance under Directive (EU) 2019/2034.
- CNB information of 30 May 2022 on EBA Guidelines on the limited network exclusion under PSD2.
- CNB information of 15 June 2022 on EBA Guidelines on the characteristics of a risk-based approach to anti-money laundering and terrorist financing supervision, and the steps to be taken when conducting supervision on a risk-sensitive basis.
- CNB information of 16 June 2022 on EBA Guidelines on improving resolvability for institutions and resolution authorities.
- CNB information of 13 July 2022 on ESMA Guidelines on certain aspects of the MiFID II appropriateness and execution-only requirements.
- CNB information of 3 August 2022 on EBA Guidelines on the equivalence of confidentiality regimes.
- CNB information of 24 November 2022 on EBA Guidelines on the criteria for the exemption of investment firms from liquidity requirements in accordance with Article 43(4) of Regulation (EU) 2019/2033.
- CNB information of 30 November 2022 on EBA Guidelines on policies and procedures in relation to compliance management and the role and responsibilities of the AML/CFT Compliance Officer.
- CNB information of 6 December 2022 on EBA Guidelines on the benchmarking exercises on remuneration practices, the gender pay gap and approved higher ratios under Directive 2013/36/EU.
- CNB information of 6 December 2022 on EBA Guidelines on the benchmarking exercises on remuneration principles and the gender pay gap under Directive (EU) 2019/2034.
- CNB information of 6 December 2022 on EBA Guidelines on the data collection exercises regarding high earners under Directive 2013/36/EU and under Directive (EU) 2019/2034.
- CNB information of 22 December 2022 on EBA Guidelines amending Guidelines EBA/GL/2018/10 on disclosure of non-performing and forborne exposures.

### **Selected explanatory opinions**

- CNB explanatory opinion of 4 January 2022 regarding anti-money laundering obligations in the investment fund sector.
- CNB explanatory opinion of 1 March 2022 on the procedure followed by management companies and autonomous investment funds in monitoring compliance with capital requirements and identifying capital shortfalls.
- CNB explanatory opinion of 2 March 2022 on the composition of the board of directors of management companies and autonomous investment funds from a governance system perspective.
- CNB explanatory opinion of 16 June 2022 on the unauthorised taking of deposits from the public (illegal banking).

- CNB explanatory opinion of 30 June 2022 on illegal collective investment funds (Article 98 of the AMCIF).
- CNB explanatory opinion of 1 July 2022 on asset administration comparable to asset management (Article 15 of the AMCIF).
- CNB explanatory opinion of 1 August 2022 on whether insurance against death due to accident or illness can be regarded as non-life insurance.
- CNB explanatory opinion of 11 August 2022 on records of face-to-face meetings pursuant to the CMUA.
- Methodology of 1 September 2022 for assessing applications for authorisation under the Payment System Act.
- CNB explanatory opinion of 9 September 2022 on the cross-border marketing of investments in standard funds or comparable foreign investment funds (UCITS).
- CNB explanatory opinion of 18 November 2022 on the possibility of participating in the distribution of financial products in the event of bankruptcy or distraint.
- CNB explanatory opinion of 15 December 2022 on the nature of certain types of investment accounts under the Payment System Act.
- CNB explanatory opinion of 16 December 2022 regarding the records of telephone conversations and electronic communication in the provision of investment services.
- CNB explanatory opinion of 22 December 2022 on whether a branch of a foreign bank from the EU through which it does not carry on banking activities in the Czech Republic is regarded as a branch of a foreign bank pursuant to the Act on Banks.

### **Supervisory benchmarks and communications**

- Supervisory Benchmark No. 1/2022 of 6 January 2022 regarding the manner of generating tests when organising professional examinations pursuant to Act No. 257/2016 Coll., on Consumer Credit.
- Update of Supervisory Benchmark No. 2/2018 of 22 July 2022 regarding the requirements for selected procedures for the implementation of international sanctions.
- Supervisory Information No. 1/2022 of 13 September 2022 regarding the duties of insurance distributors in the area of product oversight and governance.
- Supervisory Benchmark No. 2/2022 of 15 September 2022 regarding the manner of generating tests when organising professional examinations pursuant to Act No. 256/2004 Coll., on Capital Market Undertakings, as amended.
- Supervisory Benchmark No. 3/2022 of 15 September 2022 regarding the manner of generating tests when organising professional examinations pursuant to Act No. 170/2018 Coll., on Insurance and Reinsurance Distribution, as amended.
- Supervisory Benchmark No. 4/2022 of 13 October 2022 regarding the prudential approach of credit institutions to publicly available information with impacts on AML/CFT.



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# Abbreviations

AIA	Artificial Intelligence Act
AIF	alternative investment fund
AMCIF	Act on Management Companies and Investment Funds
AML/CFT	anti-money laundering/combating the financing of terrorism
APRC	annual percentage rate of charge on consumer credit
CBA	Czech Banking Association
CBPR	Cross-Border Payments Regulation
CCR	Central Credit Register
CIF	collective investment fund
CMU	Capital Markets Union
CMUA	Capital Market Undertakings Act
CRD VI	Capital Requirements Directive VI
CRR III	Capital Requirements Regulation III
CSD	Central Securities Depository
CSDR	Central Securities Depositories Regulation
DCC	dynamic currency conversion
DLT	distributed ledger technology
DORA	Digital Operational Resilience Act
DSTI	debt service-to-income
DTI	debt-to-income
EBA	European Banking Authority
EEA	European Economic Area
EGAP	Export Guarantee and Insurance Company
EIOPA	European Insurance and Occupational Pensions Authority
EMIR	European Market Infrastructure Regulation
ESAs	European Supervisory Authorities
ESFS	European System of Financial Supervision
ESG	Environmental, Social and Governance
ESMA	European Securities and Markets Authority
ESRB	European Systemic Risk Board
ETF	exchange traded funds
EuSEF	European Social Entrepreneurship Fund
EuVECA	European Venture Capital Fund
FQI	fund for qualified investors
IAIS	International Association of Insurance Supervisors
ICT	information and communications technology
IF	investment firm
IFD	Investment Firms Directive

IFR	Investment Firms Regulation
IFRS	International Financial Reporting Standards
IOPS	International Organisation of Pension Supervisors
IOSCO	International Organization of Securities Commissions
IRRD	Insurance Recovery and Resolution Directive
LCR	liquidity coverage ratio
LI	life insurance
LTV	loan-to-value
MCR	minimum capital requirement
MF	Ministry of Finance
MiCA	Markets in Crypto-Assets
MiFID	Markets in Financial Instruments Directive
MiFIR	Markets in Financial Instruments Regulation
MONEYVAL	Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism
ORSA	Own Risk and Solvency Assessment
PEPP	Pan-European Personal Pension Product
PMC	pension management company
PRIBOR	Prague Interbank Offered Rate
PSD II	Payment Services Directive II
PSE	Prague Stock Exchange
PSF	pension savings fund
RM-S	RM-SYSTÉM, česká burza cenných papírů a.s.
SCR	solvency capital requirement
SEPA	Single Euro Payments Area
SFDR	Sustainable Finance Disclosure Regulation
SREP	supervisory review and evaluation process
SRP	supervisory review process
UCITS	undertaking for collective investment in transferable securities

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