Standard Summary Project Fiche

1. Basic Information

1.1. Désirée Number CZ00-04-02
     Twinning number CZ2000/IB/FI/01

1.2. Title Capital Market Legislation & Securities Commission

1.3. Sector Internal Market

1.4. Location Ministry of Finance (MoF), Securities Commission (SEC)

2. Objectives

2.1. Wider Objective

• Existence of a functioning market economy, as well as the capacity to cope with competitive
  pressure and market forces within the Union;

• Ability to take on the obligations of membership, including adherence to the aims of political,
  economic and monetary union.

2.2. Immediate Objectives

The Immediate Objective of this Project is to:

• Complete legal transposition of capital market legislation with the acquis and strengthen
  market surveillance, enforcement of the acquis and market transparency, in compliance with
  EC requirements and best-practice.

2.3. Accession Partnership / NPAA Priority

The Accession Partnership (December 1999) specifies:

• Short-term: free movement of capital – align laws on telecommunications, on insurance and
  on bonds in order to abolish the remaining restrictions in these fields; abolish anonymous
  accounts; free movement of services – reinforce securities commission and widen its field of
  operation;

• Medium-term: free movement of services – complete alignment of insurance legislation and
  establish an independent supervisory body.

The NPAA (May 1999) specifies:

• Completing harmonisation, comprehensive simplification of and modification of legislation;
  in particular a new act on investment companies and investments funds, amendment to act on
  securities which would take the form of an act on the financial market, amendment to the act
  on the stock exchange, amendment of the act on the Securities Commission;

• Considering a new concept of supervision of the financial markets.

3. Description

3.1. Background / Justification

The capital market which was re-established in the CR during the course of its economic
transformation, continues to fail to fulfil its primary function as it still does not constitute an
appropriate place for reallocation and acquiring of the adequate capital and does not fulfil standard
price setting function.

The non-standard features of the national capital market, influenced by the specific concept of
Czech (voucher) privatisation, have the substantial impact upon the capital market legislative and
in institutional framework. Therefore, the adoption of appropriate conceptual, legislative and organisational changes is necessary to reach full compliance with the EC legislation and practice.

One of the crucial conceptual changes leading to the reinforcement of regulation and transparency of the capital market was the creation of the Securities Commission (SEC) to which all supervision activities, hitherto exercised by the Ministry of Finance (MoF), were transferred as of 1 April 1998.

The concept of the SEC functioning as supervisory authority, its legal position and powers, as well as a model of financing of its activities, are being further considered at present.

Currently MoF has prepared proposals of the amendment of the Act on Securities, of the amendment of the Act on Bonds and of the amendment of the Act on Stock Exchange, which all will enter into force by the date of the 1st January 2001. According to the Plan of the Legislative Work of the Government, MoF should also prepare following proposals during the years 2000 to 2002: a new Law on Collective Investments, amendments to the Act on Securities Commission and a new Law on Financial Services.

SEC, as regulator of the capital market, is preparing several changes, one of which is the development of a modern information system. The information system should increase the transparency of the capital market in the Czech Republic. SEC will not only be acquiring information, but will also ensure that information is distributed to investors and other market participants. It is of paramount importance, with this respect, to strengthen SEC know-how in the fields of accountancy/auditing and financial analysis matters, including International Accountancy Standards, by supporting the establishment of the Chief Accountant and Financial Analyst.

3.2. Linked Activities

Phare assistance in the area of capital market legislation and regulation has been provided since the early 90s. The following projects have been implemented: Development of Regulations for the Capital Markets (CS 9107.0200), Supervision of Capital Markets (CS 9201.2202, L013), Medium-term Development of Czech Capital Markets and Implementation of a Regulatory System” (CS 9201.2202, L018), Supervisory Requirements of Capital Market” (CZ 9304.0101.21, L018), consultations of Vice-Minister and other Senior Officials of the Ministry of Finance responsible for Capital Markets Supervision at selected EU Member States’ regulatory institutions (CZ 9304.0102.05). Apart from these individual projects, horizontal facilities were also utilised, such as projects for approximation of legislation implemented via Phare Legal Advice consortium and the Multi-Country program TAIEX.

Currently, the project TA to the Ministry of Finance in the area of Capital Market (CZ9703-01-02-05-09-01) is being implemented and services of the Phare Legal Advice consortium on approximation and TAIEX continue to be utilised.

As for SEC, the project Support to the SEC: Czech Republic was implemented by the British Know-How Fund, focusing on the process of re-licensing of the Czech capital market subjects. Currently, the following projects are being implemented: Capital Market Reform in the Czech Republic provided by Phare/EBRD, focusing on legislative amendments, structural inter-relationship within the capital market and training of the SEC staff; and Minority Shareholders project provided by the British Know-How Fund, focusing on status of minority shareholders and their protection.

In 1999, an Accountancy project was provided by Advisory Group of SEC, financed largely by US AID. One of the recommendations of this project was to create an office of Chief Accountant within SEC. Other accountancy projects have been implemented under Phare assistance to the MoF, the most recent of which deals with Amendments to the Accountancy Law (CZ9703-01-02-05-08).

Within Program 1998 and Program 1999, (CZ9810-02, CZ9810-03 and CZ9904-01), there are several activities related to financial markets (such as issues of combating money laundering and other serious economic crime and the strengthening of law enforcement) although these projects are
mainly designed for the Ministry or Interior and the Ministry Justice, other institutions of public administrations, including MoF and SEC, may benefit from them.

3.3. **Results / Outputs**

The Outputs to be delivered and the Guaranteed Results to be achieved via this Project, include:

- Transposition of EC acquis in the area of capital markets (in particular the new law on Collective Investments, amendments to the Act on Securities Commission and a new law on Financial Services);
- Effective and transparent enforcement of market surveillance regulations, on the basis of strengthened administrative and management structures plus increased personnel and technical capacities to monitor and regulate the market;
- Establishment of an effective electronic market surveillance system for SEC, to detect unusual trades and situations on capital markets and to improve the efficiency of monitoring;
- Improvement of the know-how in accountancy matters, financial analysis etc. within SEC, including support with the establishment of SEC Office of the Chief Accountant and Financial Analyst as an advisory body to the Board of Commissioners.

3.4. **Activities / Inputs**

This Project consists of two tenders/contracts:

- **Twinning and Training Package - CZ 2000/IB/FI/01**
  
  A 1.5 years **Pre-Accession Adviser** (PAA), located at SEC, the PAA should possess a comprehensive knowledge of capital market issues in order to be able to advise on, or to involve appropriate short-term experts to advise on, the structure, efficiency, exercise of independence, and application of EC laws.

  In addition to the provision of management and administration systems advice, the PAA will focus on activities related to monitoring issues, in particular: analysis of the information system from the point of view of EC requirements and best-practice in the EU Member States; analysis of software modules and the application of legal norms and procedures used by EU capital market regulators in these modules; special control according to separate modules and system conditions of information technologies.

  A series of **Short-Term Experts** (approximately 20 person-months)

  Short-term experts, under the co-ordination of the PAA, will provide inputs in the following areas (with special attention given to the analysis of company accountants to detect irregular actions, enforcement of disclosure requirements and the improvement of corporate governance, including advice to the MoF on the improvement of legislation):

  - Transfer and development of know-how on accountancy related to capital markets with respect of new issuers, broker - dealers financial statements, Investment fund and companies financial statements;
  - Increasing transparency, efficiency and analytical skills of supervisory and regulatory functions of SEC;
  - Establishment of the SEC Office of the Chief Accountant and Financial Analyst as an advisory body to the Board of Commissioners of SEC on issues related to the accountancy matters;
  - Require issuers and broker-dealers to employ more transparent financial reporting for the benefit of the regulatory bodies as well as for the benefit of the investing public;
° Analysis of separate software modules;
° Long-term training of SEC employees for the effective control under the capital market and the co-operation with other regulators of capital market in the EU countries;
° Training for chief account and financial analyst for effective control IPO.

Other services including conferences, seminars, study trips and fellowships in the Member States, etc.

- **Investment in Institution Building**
  - Reconstructing and improving the security of special rooms (air-conditioning, network),
  - Up-grading hardware in SEC,
  - Development of software modules by external firm (see more details in Annex),
  - Licence and training for world-use analyst software (uniform with the Ministry of Interior, the Ministry of Finance, Czech National Bank, the Ministry of Justice),

All investment is to be tendered immediately. Specifications will be reviewed by independent experts within the framework of twinning where possible and appropriate. The first two components listed above will be financed by national funds, while the second two will be co-financed by Phare (up to 100% if possible), within the scope of the funds available, through a single tender for software development & licenses.

### 4. Institutional Framework

The Ministry of Finance (MoF) is the main body of the state administration responsible for the legislation of capital market (including financial services, collective investment, securities), while the Securities Commission (SEC) is the authority responsible for supervision over the capital market. More specifically, SEC as a regulatory body is responsible for supervision and regulation of information disclosure requirements, as well as for filing prospectuses. With respect of publicly tradable securities, SEC is responsible for permitting the new issues to be publicly tradable.

PAA will be placed at the Securities Commission and will co-ordinate all activities under this project, including assistance to the Ministry of Finance regarding questions of capital market legislation.

### 5. Budget (in MEUR)

<table>
<thead>
<tr>
<th>Project Components</th>
<th>Investment Support</th>
<th>Institution Building</th>
<th>Total Phare (= I + IB)</th>
<th>National Co-financing</th>
<th>IFI</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Twinning and Training Package</td>
<td></td>
<td>0.9</td>
<td>0.9</td>
<td></td>
<td>0.9</td>
<td></td>
</tr>
<tr>
<td>Investment in SEC monitoring system</td>
<td>2.0</td>
<td></td>
<td>2.0</td>
<td></td>
<td>2.0</td>
<td></td>
</tr>
<tr>
<td>Investment in SEC monitoring system</td>
<td></td>
<td></td>
<td></td>
<td>1.3</td>
<td></td>
<td>1.3</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>2.0</strong></td>
<td><strong>0.9</strong></td>
<td><strong>2.9</strong></td>
<td><strong>1.3</strong></td>
<td></td>
<td><strong>4.2</strong></td>
</tr>
</tbody>
</table>

### 6. Implementation Arrangements

#### 6.1. Implementing Agency

The CFCU is the Implementing Agency responsible for tendering, contracting and accounting. Responsibility for technical preparation and control remain with the beneficiary institutions: MoF and SEC. The project will be co-ordinated by MoF.

#### 6.2. Twinning- CZ 2000/IB/FI/01
The Contact Person is Ms. Jana Stará, Senior Programme Officer for Phare projects of the MoF and Finance Non-Banking Sector, Ministry of Finance, Letenská 15, Prague, tel. +420 2 570 42612, fax +420 2 570 43009, e-mail Jana.Stara@mfcr.cz.

6.3. Non-standard Aspects

For the Investment in Institution Building component, DIS Manual procedures will be followed.

6.4. Contracts

This Project consists of two tenders/contract:

A. Twinning and Training Package = 0.9 MEUR
B. SEC Monitoring System = 2.0 MEUR.

7. Implementation Schedule

Start of Twinning Selection: 3Q/00
Start of Twinning Activity: 2Q/01
Project Completion: 3Q/02

Start of Investment Tender: 3Q/00
Start of Supply Delivery: 4Q/00
Project Completion: 4Q/02

8. Equal Opportunity

Equal opportunity principles and practices in ensuring equitable gender participation in the Project will be guaranteed.

9. Environment

The investment components of this Project all relate to Institution Building activities.

10. Rates of Return

The investment components of this Project all relate to Institution Building activities.

11. Investment Criteria

The investment components of this Project all relate to Institution Building activities. All investment is to be tendered immediately. Specifications will be reviewed by independent experts within the framework of twinning where possible and appropriate. The technical studies have been completed in the Czech language.

Catalytic effect - without Phare support the project will be finished later and endanger the timeliness of the integration of the Czech Capital Market to the Europe’s structure.

Cofinancing - project is over 30% co-financing from financial resources of CzSEC, which depend on government budget for the CzSEC.

Additionality - Phare funding is additional to the government budget for the CzSEC, which has been increased every year since its foundation

Sustainability – The project is sustainable. Further maintenance and upgrading of monitoring system will be ensured by the CzSEC. All the work on the project will comply both with the Czech and the EU standards (e.g.: the security of the building is new in compliance with EU norms

12. Conditionality and Sequencing

According to the Plan of the Legislative Work of the Government, during the years 2000 to 2002 the following Acts are to be adopted: a new Law on Collective Investments, amendments to the Act on Securities Commission and a new Law on Financial Services.

The environment (rooms) and upgrading hardware in SEC are expected to be prepared by December 2000 (see part. 3.3.) and will be financed from SEC financial resources. The technical studies have been completed in the Czech language.
Further maintenance and upgrading of the monitoring system will be ensured by SEC. Continued government financing of the SEC at at least the same level as in 2000 is essential

Annexes to Project Fiche

1. Logframe Planning Matrix
2. Detailed Implementation Chart
3. Cumulative Contracting and Disbursement Schedule (in MEUR)
4. Securities Commission Monitoring System Application Types
### Capital Market Legislation & Securities Commission

**Project Number:** CZ 00-04-02  
**Date of Drafting:** 04/2000  
**Contracting Period Expires:** 31/10/2002  
**Disbursement Period Expires:** 31/10/2003  
**Total Budget:** 4.2 MEUR  
**Phare Contribution:** 2.9 MEUR

#### Wider Objective
- Existence of a functioning market economy, as well as the capacity to cope with competitive pressure and market forces within the Union;  
- Ability to take on the obligations of membership, including adherence to the aims of political, economic and monetary union

**Indicators of Achievement**
- Acknowledgement by European Commission

**Sources of Information**
- EC Regular Report

**Assumptions and Risks**
- Other Copenhagen criteria fulfilled

#### Immediate Objectives
- Complete legal transposition of capital market legislation with the acquis and strengthen market surveillance, enforcement of the acquis and market transparency, in compliance with EC requirements and best-practice.

**Indicators of Achievement**
- Increased confidence of investors, level of protection of minority shareholders, impact of collective investment and financial services legislation
- Acknowledgement by European Commission

**Sources of Information**
- Ministry of Finance, - Securities Commission - other relevant central administration bodies, research institutions, professional associations and private sector sources
- EC Regular report, screening reports

**Assumptions and Risks**
- Other measures taken to strengthen economy
- World economic growth remains positive
- All other parts of the acquis implemented

#### Results
- Transposition of EC acquis in the area of capital markets (in particular the new law on collective investments, amendments to the Act on Securities Commission and a new law on financial services);  
- Effective and transparent enforcement of market surveillance regulations, on the basis of strengthened administrative and management structures plus increased

**Indicators of Achievement**
- New and/or amendments adopted by parliament or existing legislation certified to be already in full compliance with the acquis
- Development of software modules of detection unusual situations on capital

**Sources of Information**
- Ministry of Finance, SEC - Project reports

**Assumptions and Risks**
- New regulations and additional know-how of the SEC enhance the transparency of capital market and regulatory functions of the SEC;  
- The introduction of an electronic system improves detection of unusual situations on the capital markets
personnel and technical capacities to monitor and regulate the market;
- Establishment of an effective electronic market surveillance system for SEC, to detect unusual trades and situations on capital markets and to improve the efficiency of monitoring:
  - Improvement of the know-how in accountancy matters, financial analysis etc. within SEC, including support with the establishment of SEC Office of the Chief Accountant and Financial Analyst as an advisory body to the Board of Commissioners

<table>
<thead>
<tr>
<th>Inputs</th>
<th>Assumptions and Risks</th>
</tr>
</thead>
</table>
| - PAA (placed at Securities Commission) and short-term experts, providing consultations; elaboration of studies; seminars, study visits in EU Member States, on-the-job training etc.  
- Acquisition of software including world-use analytic software for the electronic market surveillance system | - Amended legislation will be adopted by the Parliament;  
- Co-operation of parties involved (MoF, SEC, MoJ, MIT, Prague Stock Exchange, Institute of Directors, Institute of Internal Auditors, Chamber of Auditors, Union of Accountant; National Accounting Council etc.  
- The existing hardware is adequate for upgrading and for running the necessary software  
- Rebuilding and security special rooms and upgrading hardware financed from SEC budget  
- continued government financing for SEC  
- Lessons learned from previous completed Phare & USAID projects in the area of capital markets  
- Program 1998 and Program 1999, (CZ9810-02, CZ9810-03 and CZ9904-01), activities related to financial markets (such as issues of combating money laundering and other serious economic crime and the strengthening of law enforcement) & UK Know How Fund advice to SEC provide complementary support |
### Detailed Implementation Chart

#### Year

<table>
<thead>
<tr>
<th>Detailed Project Implementation</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
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<tr>
<td>Twinning and Training Package</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>- Launch Twinning request to Member States (June 2000)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Selection of MS(s) for Twinning</td>
<td>X</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Elaboration of Twinning Covenant</td>
<td>X X X</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Submit Twinning Covenant to EC &amp; Steering Committee for approval</td>
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<td></td>
<td></td>
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<tr>
<td>- Twinning Package commences</td>
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<td></td>
<td></td>
<td></td>
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<tr>
<td>Review and strengthening of legislation/implementation regulations, control/surveillance mechanisms, management and administration</td>
<td>X X X</td>
<td>X X X X</td>
<td>X X X</td>
<td></td>
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<tr>
<td>Review and establishment of an effective electronic market surveillance system for SEC</td>
<td>X X X</td>
<td>X X X X X X X</td>
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<td>Specific strengthening of accountancy skills and operations of the Chief Accountant and Financial Analyst</td>
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<tr>
<td>Staff training/fellowships</td>
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<td>X X X</td>
<td>X X</td>
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<tr>
<td><strong>Investment in Institution Building</strong></td>
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<td>Submission of tender documents to Commission</td>
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<td>Twinning Team needs analysis</td>
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<tr>
<td>- Tender Launch</td>
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<tr>
<td>- Contract(s) Signature</td>
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Cumulative Contracting and Disbursement Schedule (M€)

**Annex 3**

### Cumulative Quarterly Contracting Schedule (M€)

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<tr>
<th>Project</th>
<th>4Q/00</th>
<th>1Q/01</th>
<th>2Q/01</th>
<th>3Q/01</th>
<th>4Q/01</th>
<th>1Q/02</th>
<th>2Q/02</th>
<th>3Q/02</th>
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<th>2Q/03</th>
<th>3Q/03</th>
<th>Total</th>
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<tr>
<td>Strengthening Regulation/Enforcement of the Capital Market Acquis and the Operations of the Securities Commission</td>
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<td></td>
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<td></td>
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<td>2.9</td>
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### Cumulative Quarterly Disbursement Schedule (M€)

<table>
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<th>Project</th>
<th>4Q/00</th>
<th>1Q/01</th>
<th>2Q/01</th>
<th>3Q/01</th>
<th>4Q/01</th>
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<th>3Q/03</th>
<th>Total</th>
</tr>
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<tr>
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</table>
Securities Commission Monitoring System Application Types

The monitoring system software will include different modules to address specific tasks. These modules will co-operate to provide access from the special modules to any system data.

The tasks may be categorised based on the following criteria:

1) Usage:
   - Abnormal transaction detection software
   - Software used to monitor any uniquely defined regulatory guides (e.g. entities’ information obligation)
   - Data processing software used to support the individual decisions of the Securities Commission (hereinafter Commission)

2) Processing Scope:
   - Any data available on the capital market
   - Data created by the Commission, so called Small Information System

3) Processing Output:
   - Final processing with final output
   - Continuous processing, the results will be used for further processing; Print monitoring is a typical example

4) Data Storage Location:
   - Local data storage using the Commission equipment
   - External data storage with the access right

The above text indicates that specific tasks may be categorised based on the individual criteria but the entire system must eventually work as a whole. Therefore, the software must be processed by an external vendor as there are no resources available at the Commission to create the software. The software may be broken down in two groups, standard software and special software designed for the Commission needs. It is envisioned that both groups will be interfaced which means that the standard software will be extended, or partially modified to accommodate all specific needs of the Commission.

Data collection will be one of the key items for the entire system. The final solution assumes that the Commission will have access to relevant sources of information related to the capital market, not only in the Czech Republic but also world-wide. The adoption of the Public Administration Information System Law will be one of the essential moments. Once this law has been adopted, the primary goal of the Commission will be to join this Information System as it is envisioned that it will be joined by most of the public administration authorities, thus facilitating communications between the public administration authorities. There is an online link to the RM-System currently as well as a technical design for the link to the Stock Exchange in Prague where a communications link test operation contract was signed to provide the basis for delivery of any relevant data from the Stock Exchange to the Commission.
As one may never positively predict future progress and directions of the capital market, any details of the final requirements for the Commission monitoring system can hardly be defined at the moment. This monitoring system must be developed as an open system so that additional modules can be added in a simple way, both directly and indirectly. Directly means that a module will be incorporated in the kernel, and indirectly means that a module will be operated independent of the system kernel, and only its output will provide an input for the system kernel, or this module will become a support module for activities of the individual Commission sections, or this module will be used to monitor legal processes controlled and supervised by the Commission.

System Component Description

The kernel should be a system that allows analyses of all activities on the capital market, or all activities (even outside the capital market) of the entities involved in the capital market. This system is very complex and requires long-term efforts to develop. One of the alternatives to develop and use such a system is a method of successive iterations. Initially, the system will be used as a simple structure with additional features successively defined based on the experience and requirements. This system will be the apex of the entire monitoring system while the rest of system modules will be able to operate as stand-alone units. In the early stages, it will be more complicated for the Commission people to address the individual events. They will be able to receive information from the respective modules, although they will have to create single interfaces between activities of the controlled entities by themselves. They will have to use direct links only because it is almost impossible to define interfaces manually using a single entity.

Additional modules:

(Non)Public Market Transaction Monitoring and Reporting Module

This module will be based on the Ministry of Finance decree on transaction reporting as stated in Law §15 on the Securities Commission. It is expected that mandatory entities will report any transaction completed outside the public markets while any transaction from the public market will be reported by the specific administrators. As the current technical terms of the Commission do not allow to accept direct reports from the mandatory entities, those reports are supposed to be submitted by a third party that will provide for their transmission to the Commission as well as distribution of Commission reports to any investors. The report will have two functions. The primary function is that each transaction must be reported to all investors as soon as possible. The Commission assumes that the reporting period from the time a deal is made should not exceed 10 minutes. The secondary reporting function will serve the Commission needs. The Commission will analyze reports to detect any abnormal transaction (e.g. large volume, a great exchange rate deviation, etc.), and make sure that all transactions are properly reported (while inspecting the entities to compare all settled transaction data). Once the reports are initiated, the Commission believes that transparency of the Czech capital market will be increased henceforward although it is a single successive step, and a full transparency of the entire Czech capital market will not be achieved by initiating reports of all transactions.

There are three activities to be supervised concern, in particular, the professional care of securities dealers:

- Securities trading where a public purchase offer is in place. None of securities should be sold for a lower price than the public purchase price. If so, the securities dealer must justify that the client wanted to sell securities for that inconvenient price even though he knew he could sell them on a better price.

- Securities purchasing even if there is no public offer in place to purchase the stock. This specific purchasing occurs for a much lower price (often for half the price) than the security rate on public markets. Again, the dealer must justify that his client was provided sufficient information to be able to take a correct decision. For example, in the case of capital investment funds or...
closed shares funds on the discount rate whether the fund has already presented a change process schedule for an open shares fund where purchasing is processed in a different manner.

- Also, monitoring of any abnormal transactions using primarily public data provided by the Information Centre of the Securities Centre, and if required, add data based on a non-public information request by the Securities Centre. Transactions are selected based on their rate deviation and transaction size. If it is suspected that the law may have been violated, the transactions are submitted for final examination to the specific departments of the Commission, or the specific authorities responsible for financial transaction examination (the Police, the prosecution, or the Treasury financial/analytical department, etc.)

**Capital Investment Company/Fund Information Obligation Tracking Module**

This module is currently operated using MS Access and MS Excel. The mandatory entities submit reports to the Securities Centre which passes them on to the Commission for further actions. Any report is processed with regard to two viewpoints. The first is an examination whether the regulatory guides are followed, i.e. are the reports properly submitted by the entities, or does the entity request to open if the allowed discount is exceeded. The second viewpoint is tracking of the indexes required to be submitted by the entities, in particular, regarding any changes within a specified period, or possibly the overall portfolio structure of the individual entities. Then the entities are physically checked for data consistency between the submitted reports and the identified data. At the moment, this module is supposed to be added by partial data comparison periodically provided to the Commission by the Securities Centre, and reports submitted by the capital investment companies and funds. This comparison is just a benchmark because only the posted securities data is available to the Commission today.

**Issuers’ Information Obligation Tracking Module**

This module is currently under successive commissioning. This module is used to track issuer data for single issues so that the Commission can provide this data to investors as well as international companies. This module will also be used to track whether the information obligation is/is not followed by the individual issuers in respect to both the periodical (yearly, 6-months) and continuous obligation (report any event that may considerably affect the exchange rate). As new amendments to the Commercial Code and Securities Law are being discussed currently, this module may have to be modified to reflect those amendments. This module may be upgraded, if the Commission is authorised to do so, to include monitoring of the obligation to initiate public offers for stock purchasing when a specific stockholder concern is achieved, and monitoring of the published price for a mandatory offer to purchase the stock, and monitoring of the investor notification that he is going to win a certain concern in the company, or monitoring of any other facts related to the issuers and security issues.

A joint working group of the Securities Commission, Securities Centre, and the Stock Exchange, Prague was established. Their task will be to build an issuer information collection system using the electronic format, and consequently a public information reporting system for all investors. The electronic format, however, is not supported by the law as of today, therefore it is up to the issuers whether they will provide this information or not. For the future, any issuer must be aware of the necessity to provide any information using the electronic format.

**Text Document Processing Module**

This module will allow processing of any text documents using full text retrieval. Any text created by the Commission, or received from external sources may provide input to this module. The Commission is currently testing one full text retrieval system. The sources include an electronic form of the Commercial Bulletin and morning press monitoring outputs. The press is currently fully monitored using the Internet because the vendor was not able to complete the entries update module.
Small Information System Module

This module is primarily designed for activities of the specific Securities Commission departments. Any information on specific entities or activities will always be entered by the departments where this information was originated. There will be a comprehensive output which means that all Commission departments will use all information. Each record may include attached documents to store any additional information related to the specific record. These attached documents may not have to be accessible for all employees of the Securities Commission, however, access for any selected people may be defined.

This entire module will consist of specific tasks which should in total cover all the control and supervision activities of the Commission. The specific tasks will allow to enter specific assignments for individuals as well as organisation departments, and follow their performance.

Description of the currently defined tasks:

- Administrative procedure – all information on the administrative procedure. Initiate the procedure, participants, entities affected by the procedure, all communications with the procedure participants, delivered decisions and appeals against the decisions, information on the final judgement, activities of the individual Commission employees during the administrative procedure, follow deadlines.
- Supervisory control
- Tracking of primary data from the entities supervised by the Commission
- Precautions
- Exacting fines imposed by the Commission
- Legal proceedings
- Penal proceedings
- Complaints filed with the Commission
- Control all mail processing (received, sent, transmission between the individual Commission departments)

A task „Administrative Procedure“ is currently scheduled to be executed using MS Access, then the requirements for the rest of tasks will be defined. Even if this is a module, it may be created task by task. In particular, it depends how the departments will approach to create specifications for the individual tasks.

Graphic Ratio Analysis Processing Module

This open module will be used by the authorised experts of the Securities Commission as an analytical tool to create high-level ratio analyses. Also, this tool will be used to create final output reports intended for the users.

Module Creation Time Schedule

The entire schedule relies on the available financial resources of the Commission. Therefore, we below provide only a creation sequence for the specific modules.

(Non)public market transaction monitoring and reporting module – Finalise this module based on the legal requirement

- Text document processing module – Use a tender to select a vendor so that this program is available to all organisation departments of the Commission
- Small Information System“ Module
- Issuers’ information obligation tracking module – Finalise this module based on the legal requirements

- Capital investment company/fund information obligation tracking module – Transfer this module to the database system and use the current version to finalise it based on the requirements

- Graphic Ratio Analysis Processing Module

- System Kernel – it will require considerable financing and cannot be completed by parts. Some very costly training, in particular abroad, will be necessary to efficiently utilise this analytical system, both at the general level (training provided by the vendor) and the specific levels (training provided by the regulators in the EU countries and the USA).

**Conclusion**

Practically, the monitoring system has been in operation since July 1998 which is three months from the date the Securities Commission started its activities. The system has been used manually for the most part. The Czech capital market is, however, quite completely electronic. As the spurious actions completed by some entities are not hidden at all, even the results of the manual monitoring system are visible. The number of abnormal transactions has been reduced successively based the established criteria. It was approximately 40% for the first year of operation. Some other incompetent actions are eliminated just by the actual simple monitoring, although some entities operating on the edge of the law will attempt to hide their actions to prevent immediate revelation. Therefore, the Securities Commission as a regulatory body needs to operate a high quality electronic monitoring system in order to ensure quality supervision of the electronic capital market. A major obstacle is financial resources of the Securities Commission. If they are improved, it will expedite development of the individual system parts, improve the supervision of the Czech capital market, and improve the co-operation with the regulatory bodies in other countries. Thus the Czech capital market may be regarded as transparent and equal to the markets in the EU, or OECD countries.

Therefore, the Securities Commission initiated deliberations (discussions) with the Ministry of Finance and the EU Delegation concerning potential financial support by means of the Phare program. The Phare Project should be used to purchase some parts of the software (the Commission would prefer to purchase the 12 licences for analytical software, and technical assistance when creating specifications for the abnormal situation monitoring software intended for the entire the capital market of the Czech Republic), provide training for the Czech experts in the EU countries, visits of foreign experts in the Czech Republic, and improve operation of the individual Securities Commission departments.