STANDARD SUMMARY PROJECT FICHE

1. Basic Information

1.1 Désirée Number: 2002/000-282.04.03

1.2 Title: Capital Markets Legislation & Regulation

1.3 Sector: Internal Market and Economic Criteria

1.4 Location: Czech Republic

2. Objectives

2.1 Overall objective
- Functioning market economy as well as the capacity to cope with competitive pressure and market force
- The ability to take on obligations of membership including adherence of political, economic and monetary union

2.2 Project purpose
- To improve capital market transparency and support effective market surveillance by assessing and, where appropriate, amending legislation in compliance with EC acquis and best international practice, and by enhancing the execution of supervisory functions
- To improve the enforcement of Czech capital market legislation and regulation by strengthening the institutional capacity of the KCP

2.3 Accession Partnership and NPAA priority
AP: Free movement of capital and services, considering a new concept of supervision of the financial markets, reinforce Securities Commission and widen its field of operation (AP / NPAA)
NPAA: (see above)

2.4 Contribution to National Development Plan
n.a.

2.5 Cross Border Impact
n.a.

3. Description

3.1 Background and justification
The adoption of legislative changes is necessary to reach full compliance with the EU legislation as to capital market legislation (the Directives 93/22/EEC, 2001/34/EC, 89/298/EEC, 89/592/EEC, 93/6/EEC, 97/9/EC, 85/611/EEC). According to the Plan of Legislative Work of the Government, MoF has prepared the legislative intention of the Act on Capital Market Bussines and the completely new Act on Collective Investment is under preparation. The both new acts are expected to enter into force in 1 January 2003. Continuous scrutiny of the legislative provisions reflecting the requirements of the integrated financial market and, in particular, the objectives and tasks set up by the EU Action Plan for Financial Services, will require the assistance of EU experts also in the cours of the upcoming years.

With the aim to improve the functioning of the capital market the Ministry of Finance is keen to obtain recommendations and proposals concerning the issue of the central depository of securities and the related issues of the settlement of securities and financial clearing. The existing status and operations should be assessed in view of the Directive 85/611 and Lamfalussy’s Report. The proposal for a new concept and related measures ensuring the system based on the principle of delivery versus payment should rank among the key outputs of the project.

With respect to emerging issues of cross-border transactions and e-business a coherent set of legislative measures regarding the capital market regulation and monitoring in this area will be of increasing importance. The Securities Commission (SEC) requires the EU assistance for the elaboration of a technical framework related to the regulation of cross-border transactions and e-business and for strengthening the
effective monitoring of transactions on capital market in general. Legislative, organisational and technical framework related to the regulation of cross-border transactions with respect to Securities Commission (SEC) should be based on the Directives 2000/31/EC of the European Parliament and of the Council, Directives 93/22/EEC, 2001/34/EC, 89/298/EEC, 89/592/EEC, 93/6/EEC, 97/9/EC, 85/611/EEC and on Lamfalussy’s Report. For this purpose a close co-operation with other regulators with regard to cross-border transactions and e-business should be established and developed which should enhance the effective monitoring of transactions on capital market in general.

3.2 Linked activities
• Continuation of project under Phare CZ00.03.01 Capital Market Legislation & Securities Commission, gradual introduction of the monitoring system and installation of the recommended IT.

3.3 Results
a) Legislative framework for capital market, including legislative measures for its regulation and surveillance - improved
b) Legislative provisions related to cross-border transactions prepared
c) Organisational and technical framework related to the regulation of cross-border transactions and e-business with respect to Securities Commission (SEC) worked out
d) Effective monitoring of transactions on capital market - in place
e) Co-operation with other regulators with regard to e-business - established and developed
f) Existing status and operations (in particular settlement of securities and financial clearing of the central securities depository) including the institutional arrangement and role of the central depository - assessed
g) Proposal for new concept and related measures ensuring the system based on the principle of delivery versus payment presented
h) Technical specification for specific software and hardware for delivery versus payment system written
i) Training programmes for management and staff prepared
j) Hardware and software procured for delivery versus payment system based on technical specification referred to under h) above.

3.4 Activities

1) Twinning (0.5 M€)
 a) Consultations, comparative and analytic studies, seminars focused on:
b) the assessment of existing legislation and interpretation of the EU Directives, including proposals for amendments and assessment of their impact in practice
c) the legislative, organisational and technical proposals related to cross-border transactions regulation
d) proposal for new concept and related measures ensuring the system based on the principle of delivery versus payment
e) Study visits to EU member states regulators with an emphasise on inspection activities (regulation of public markets and alternative trading systems including trading in derivatives, regulation of central depositories, regulation of brokers/ dealers with stress on the capital adequacy and risk management, regulation of subjects of collective investment)
f) Study visits to central depositories in EU member states

Twinning Covenant will include:
• PAA for 15-18 months
• Short-term experts 150-200 w/d

The PAA and the short terms experts should have comprehensive knowledge and experience related to EC Directives and their interpretation; the PAA is expected to coordinate the work of ST experts within the project.

2) Technical Assistance (0.3 M€)
Technical specification for specific software and hardware for system delivery versus payment.

3) Investment (0.5 M€)
Procurement of HW and SW based on the Technical Specification elaborated under the TA contract. See also art.12 – Conditionality & Sequencing.
3.5 Lessons learned
Given the character of the project and taking into account the experience with the preparation and implementation of similar projects the emphasis has been put on the necessity of multidisciplinary approach and ensuring the efficient coordination between the institutions involved. All relevant recommendations from previous related projects has been taken into account.

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).
- The Securities Commission (SEC) - regulator - is from April 1998 the authority responsible for supervision over the capital market. The SEC is established as the state administrative authority for the capital market and act as a state supervisor pursuant to the Act No. 15/1998 Coll., on the Securities Commission, and the special Acts. Currently the drafts of the amendments (a new Act on Securities Commission and related Acts) which enable major legislative activities are in legislative process.
- The activity of banks is subject to state supervision by the SEC to the extent, that
  a) banks are acting as securities traders
  b) banks are acting as the depositaries for investment companies, investment funds and pension funds
  c) bank's activities include the issuance of investment instruments
  d) banks are acting pursuant to the maintenance of a certain part of the Securities Centre's records.
- The activities of the pension funds and insurance undertakings are subject to state supervision by the SEC to the extent which the funds and insurance undertakings are subject to obligations when investing into investment instruments or trading in investment instruments on their own account.
- In exercising its authority over banks, the SEC shall proceed in such a manner so as not to interfere with the authority of banking supervision bodies established pursuant to the Act on the Czech National Bank. The same applies with regards to the MoF and its exercise of state supervision pursuant to the MoF responsibilities and other legislative provisions concerning the activities of the pension funds and insurance undertakings.
- The SEC is completely independent as to its supervision and decision making activities. The SEC is independent of the MoF and is financed by the State budget. Standard procedures for budgetary process are followed. It participates in preparing of draft bills regarding the capital market.
- Powers of the MoF as to supervision of the pension funds and insurance undertakings are given by the Act on Supplemental Pension Insurance with State Contribution and the Act on the Insurance Industry. According to the Competency Law MoF is the central state administration authority for the financial market with the exception of the capital market supervision within the powers of the SEC.
- Within the sphere of capital market MoF is responsible for the legislation, i.e. issuing of the Acts of the capital market and governmental decrees, which are issued on the basis of a proposal by the Commission.
- The Securities Centre (SCP) is a legal entity, established by the MoF under a special law and the state (i.e. the Czech Republic) is liable for the obligations of the SCP. The SCP must record:
  a) book-entered securities, changes in their ownership and other information related to them
  b) immobilised securities, changes in their ownership and other information related to them
  c) other details, if so stipulated by law.
- Records of book-entered securities are kept by the SCP on accounts of their owners and in a register of securities issuers.

5. Detailed Budget (mil.€)

<table>
<thead>
<tr>
<th>Project Components</th>
<th>Phare Support</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>Investment Support</td>
</tr>
<tr>
<td>(1) Twinning</td>
<td>0,5</td>
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<tr>
<td>(2) Technical Assistance</td>
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<tr>
<td>(3) Investment</td>
<td>0,5</td>
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<tr>
<td>Total</td>
<td>0,5</td>
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</tbody>
</table>

* There will be parallel co-financing

6. Implementation Arrangements
6.1 Implementing Agency
The CFCU is the Implementing Agency responsible for tendering, contracting and accounting. Responsibility for technical aspects related to preparation, implementation and control will rest with the beneficiary institutions and will be co-ordinated by the Ministry of Finance.
The contact Person for the Project 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. +4202587042612, fax +4257049236, e-mail Jana.Stara@mfc.r.cz.

6.2 Twinning
Twinning focused on legislation and related issues:
-PAA for 15 – 18 months
-short-term experts: 150-200 w/d

6.3 Non-standard aspects
N/A

6.4 Contracts
(1) Twinning Covenant- 0.5 M €
(2) Service contract- TA - 0.3 M €
(3) Supply contract (for procurement of HW and SW) - 0.5 M €

7. Implementation Schedule

7.1 Start of tendering/call for proposals
Twinning: 2Q/02
TA-Service: 3Q/02
TA-Supply: 2Q/03

7.2 Start of project activity
Twinning: 4Q/03
TA-Service: 1Q/03
TA-Supply: 3Q/03

7.3 Project Completion
4Q/04

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. No adverse environmental impact is expected.

10. Rates of Return
The investment components all relate to Institutional Building.

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.

12. Conditionality and Sequencing
The proposals for amendments to legislation, procedures and structures resulting from the project will be reflected in proposals put forward by the Ministry of Finance to the Government of the Czech Republic. There will be parallel national co-financing, as indicated in art.5 – Detailed budget. The supply of the equipment will be checked by the independent experts, either in the context of twinning or hired by the Delegation.
ANNEXES TO PROJECT FICHE

1. Logical framework matrix in standard format
2. Detailed implementation chart
3. Contracting and disbursement schedule by quarter for full duration of programme
<table>
<thead>
<tr>
<th>Project title: Capital Markets Legislation &amp; Regulation</th>
<th>Programme number: 2002/000-282.04.03</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Disbursement period expires: 31/10/2005</td>
</tr>
<tr>
<td></td>
<td>Total budget: 1.5 mil.€</td>
</tr>
<tr>
<td></td>
<td>Phare budget: 1.3 mil.€</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Overall objective</th>
<th>Objectively verifiable indicators</th>
<th>Sources of Verification</th>
</tr>
</thead>
<tbody>
<tr>
<td>Functioning market economy as well as the capacity to cope with competitive pressure and market force · The ability to take on obligations of membership including adherence of political, economic and monetary union</td>
<td>EC recognition</td>
<td>Regular Report</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Peer Review</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Project purpose</th>
<th>Objectively verifiable indicators</th>
<th>Sources of Verification</th>
<th>Assumptions</th>
</tr>
</thead>
<tbody>
<tr>
<td>To improve capital market transparency and legislation. In compliance with EC acquis and best international practice (the Directives 93/22/EEC, 2001/34/EC, 89/298/EEC, 89/592/EEC, 93/6/EEC, 97/9/EC, 85/611/EEC)</td>
<td>Proper functioning of capital market according to EU and international standards · Increased confidence of investors, level of protection of minority shareholders, impact of collective investment and financial services legislation, etc. · Introduction of electronic monitoring system of CzSEC</td>
<td>Official Journal (Coll. of laws and legal provisions - Sbírka zákonů) · Ministry of Finance (governmental statistics complying with IMF standards (SDDS) and internal sources incl. interviews with the relevant officials · Securities Commission (SEC) - Annual Report, regular Quaterly reports on the situation on the capital market · Securities Centre · other relevant central administration bodies, research institutions, professional associations and private sector sources</td>
<td>Legal and institutional environment for business improved · Other relevant part of acquis implemented · Capital market in the CR continues to develop · Progressive integration of financial markets in general, and e-business segment in particular, in EU single market and global economy continues</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Results</th>
<th>Objectively verifiable indicators</th>
<th>Sources of Verification</th>
<th>Assumptions</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) legislative framework for capital market, including legislative measures for its regulation and surveillance - improved</td>
<td>Recommendations for amendments to capital markets legislation, where needed · Upgrade of software modules of detection unusual situations on capital market · Uniform analyst software with other state-institutions</td>
<td>Official Journal (Sbírka zákonů) · Ministry of Finance (internal reports and interviews) · Securities Commission (Annual Report, Quaterly reports, interviews) · Securities Centre · other relevant central administration bodies, research institutions, professional associations and private sector sources</td>
<td>Appropriate legislative measures will be adopted · New regulations and additional know-how of the SEC will enhance the transparency of capital market and regulatory functions of the SEC · Appropriate IT support will be designed and implemented where relevant</td>
</tr>
<tr>
<td>b) Legislative, organisational and technical framework related to the regulation of cross-border transactions with respect to Securities</td>
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</tbody>
</table>

6
<table>
<thead>
<tr>
<th>Activities</th>
<th>Means</th>
<th>Assumptions</th>
</tr>
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</table>
a) Consultations, comparative and analytic studies, seminars focused on:
- the assessment of existing legislation and interpretation of the EU Directives, including proposals for amendments and assessment of their impact in practice the legislative, organisational and technical proposals related to cross-border transactions regulation
- proposal for new concept and related measures ensuring the system based on the principle of delivery versus payment
- Technical specification for specific software and hardware for system delivery versus payment

b) Study visits to EU member states regulators with an emphasise on inspection activities. Study visits to EU member states regulators with an emphasise on inspection activities (regulation of public markets and alternative trading systems including trading in derivatives, regulation of central depositories, regulation of brokers/dealers with stress on the ssscapital adequacy and risk management, regulation of subjects of collective investment )

c) Study visits to central depositories in EU member states

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<td>The PAA and the ST experts should have comprehensive knowledge and experience related to EC Directives and their interpretation; the PAA is expected to coordinate the work of ST experts within the project.</td>
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<tr>
<td>TA focused on issue which cannot be covered by the twinning:</td>
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<tr>
<td>Service contracts( s) provided in compliance with the established standard procedures ( 0.3 M €)</td>
</tr>
<tr>
<td>Supply contract (for procurement of HW and SW) – (apx.0.5 M €)</td>
</tr>
</tbody>
</table>

Results of previous Phare projects, in particular Capital Market Legislation & Securities Commission (CZ00-03-01), and other bilateral and multilateral assistance will be fully taken into account
- Co-operation of all relevant parties (in particular Ministry of Finance and Securities Commission) will be ensured
- 10-15 of staff trained in regulatory activities
- 4 – 6 study visits to EU member states regulators with an emphasise on inspection activities
- 4 - 6 study visits to central depositories in EU member states

**Preconditions**
- Appropriate budget allocated within the National Phare Programme 2002
- Sufficient staff at disposal and committed
## DETAILED IMPLEMENTATION CHART

<table>
<thead>
<tr>
<th>Action</th>
<th>Investment component</th>
<th>2002</th>
<th>2003</th>
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<tr>
<td>Call for proposals</td>
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<tr>
<td>Start of tendering (x = service, o = supplies)</td>
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<tr>
<td>Start of project activity</td>
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<tr>
<td>Project completion</td>
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<tr>
<td>Twinning component</td>
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Legend: X = service, o = supplies
# Contracting and Disbursement Schedule by Quarter for Full Duration of Programme

## Cumulative Quarterly Contracting Schedule (mil.€)

<table>
<thead>
<tr>
<th>Project</th>
<th>1Q/02</th>
<th>1Q/02</th>
<th>3Q/02</th>
<th>4Q/02</th>
<th>1Q/03</th>
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## Cumulative Quarterly Disbursement Schedule (mil.€)

<table>
<thead>
<tr>
<th>Project</th>
<th>1Q/02</th>
<th>1Q/02</th>
<th>3Q/02</th>
<th>4Q/02</th>
<th>1Q/03</th>
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<th>4Q/04</th>
<th>1Q/05</th>
<th>2Q/05</th>
<th>3Q/05</th>
<th>4Q/05</th>
<th>Total</th>
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<tbody>
<tr>
<td>Capital Markets Legislation &amp; Regulation</td>
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