STANDARD SUMMARY PROJECT FICHE

1. Basic Information

1.1 CRIS Number: 2002/000.610-04
1.2 Title: Strengthening Financial Sector Supervision
1.3 Sector: Finance - SK/02/FI/01
1.4 Location: Slovak Republic

2. Objectives

2.1. Overall Objective(s):

Achieve an integrated and efficient financial market.

2.2. Project purpose:

The supervisory institutions and procedures strengthen and well co-ordinated

2.3. Accession Partnership and NPAA priority

**Accession Partnership**
- reinforce supervision of financial services
- strengthen and co-ordinate the supervisory institutions and procedures

2001 NPAA
Further harmonisation of the directives on financial services. Compliance with the EU Directive 92/121 on monitoring and control of the exposure of the credit institutions to excessive risks.

2.4. Contribution to National Development Plan: not relevant

2.5. Cross Border Impact: not relevant

3. Description

3.1 Background and justification:

The creation of the Financial Market Authority by the adoption of the Act. No. 329/2000 Coll. constituted the first step towards ensuring an efficient and well-supervised capital market and insurance industry. The Financial Market Authority (hereinafter the FMA) has become the really independent supervisory institution by the Act No 96/2002 Coll. on the supervision over the financial market which came into effect on April 1, 2002. The Act defined the financial, personnel, organisational and procedural independence of the FMA. The main source of incomes of the FMA shall be collected from fees and fines paid by supervised institutions.
Currently the FMA is responsible for supervising capital market and insurance industry (e.g. exchanges, securities brokers, brokerages, collective investment entities, central securities depository, issuers of publicly tradable securities, commercial insurance companies), as well as for issuing licenses and imposing sanctions. The FMA closely co-operates with the Ministry of Finance in establishing and implementing financial policy; in drafting and issuing regulations for the capital market and insurance business. Some residual powers in relation to specialised financial institutions remain with the Ministry of Finance.

The supervision over individual banks and consolidated groups, where the banks are members, is currently exercised by the National Bank of Slovakia (hereafter the NBS). The NBS is the legal person authorised to exercise prudential supervision of credit institutions and to carry out on-side and off-side examination of banks (The Act on Banks, as amended by Act 483/2001Coll. and the Act on NBS. Act No. 566/1992 Coll. as amended.) The NBS issues bank licenses, exercises prudential supervision over the credit institutions and imposes sanctions.

The Slovak Ministry of Finance and the National Bank of Slovakia are responsible for drafting legislation governing the banking industry as well as the implementation of the relevant acquis. The amendment to the Act on the NBS entered into force in January 2002 and reinforced the supervisory power of central bank. The new Act on Banks adopted in October 2001 aligned Slovak banking legislation to EC banking Directives governing the areas of minimum capital, licensing requirements, supervision on an individual and consolidated basis, internal control requirements, exchange of information between financial supervisory bodies and capital adequacy rules. The investment services and capital adequacy Directives has been fully transposed in Slovakia by the “re-codified” Securities Act that enters into force on 1 January 2002. The Collective Investment Act will be amended by 1 January 2003 with a view to further alignment with the UCITS Directive.

The Slovak Government in its Statement (No.808/1998) approved the concept of the joint supervisory authority over capital market, banks and insurance companies. In relation to the IMF Staff Monitored Programme, the Slovak Government had to take decision on the institutional arrangements of banking supervision by May 2001. (Resolution No. 273 of 28 March 2001).

The Government eventually approved the "Concept of Integrated Supervision over Financial Market" in March 2002 (Deliberation of Slovak Government No. 302, as of 27 March 2002). The arguments presented prioritised the model of integrated supervision under the National Bank of Slovakia. The gradual integration of both supervisory institutions should be completed in 2005. The process of institutionalisation of the integrated supervision over financial market will be governed jointly by Ministry of Finance and the National Bank of Slovakia.

Despite the considerable progress achieved as regards financial service supervision there is still important legislative work to be completed. Efficient co-operation procedures between the NBS and the FMA should be set up in order to succeed in enforcement of the adopted legislation in the capital markets, credit institutions and insurance companies. As stated in the recent Regular Report these financial supervisory authorities should strengthen their mutual co-ordination in the application and enforcement of legislation in the capital markets, banking and insurance sectors.
The strengthening of bank supervision is also one of the structural benchmarks identified by the World Bank as the conditions for release of tranches of EFSAL loan. Adequate staffing should be ensured and attention should be paid to improvement of supervisors competence and skills both off-sight and on-sight. Training to the staff will be provided within existing organisational boundaries.

The prerequisite of the efficient supervision of the capital market, banking and insurance companies is the availability of the integrated information databases on the supervised institutions. The FMA current databases are decentralised without direct access to different segments of financial market. An efficient financial market supervision needs an integrated and modular information system, which enables real time processing of data on financial market. The data shall be evaluated automatically and transferred for further processing to designated department. The most important feature of the Information System shall be the early warning signals. The early warning system will detect the irregularities in the financial market and enables to take immediate corrective actions, and thus prevent unwelcome consequences of non-standard actions of financial service providers on consumers and the society.

3.2. Linked activities:

Activities and projects having been undertaken in the area of supervision are:

SR 9704 05 02 Supervision on Consolidated Basis (0.1 MEUR)

The project comprises the short-term assistance in transposition of the EU Directives on supervision on consolidated basis and advice on the implications of the Basle document on Consolidation of Financial Conglomerates and International Accounting Standards on Consolidation.

SR 9704-02-03 Capital Market - Supervision and Legal Issues (0.2 MEUR)

The project objective was to assist in preparation and drafting the Act on the Financial market Office. The project resulted in adoption of the Act No. 329/2000 in May 2000.

SR 9704-03-01 TA to the Insurance Supervisory Authority (0.3 MEUR)

The objective of this project was to strengthen the supervision of insurance companies and set up guarantees for long term financial stability of financial market. The project beneficiary was the former Department for the Insurance Supervision of MoF).

SR 98/IB/FI//01 Twinning project (German Ministry of Finance) (0.8 MEUR)

The main beneficiary of the assistance was the Slovak Ministry of Finance and focused on three areas:
1. Capital Market Law (drafting the law on Securities);
2. Insurance Supervision (amendment of the Act on Insurance Industry and Supervision);
3. Financial Services Supervision (technical set-up of the Joint Supervisory Authority),
3.3. Results:
The project shall result in enhanced capacity of the supervisory authorities to regulate and supervise efficiently the capital markets, the insurance companies and the credit institutions.

By the end of the project provided support to the supervisory authorities shall result in:
I. supervisory authorities reinforced and co-ordinated
   II. secondary legislation on financial services adopted and implemented
III. supervisory information systems integrated and the early warning system operational;

3.4. Activities:
The general objective shall be achieved through further amendment of regulatory framework, through reinforced co-operation of supervisory authorities, training of the supervisory staff and development of relevant software solutions including EWS (Early Warning System).

3.4.1. Technical and Legal Assistance (1.4 MEUR)
Activities related to results I. and II shall be supported through twinning assistance.

1. Securities trading and Collective Investment

Licensing, disclosure requirements and oversight, means and forms securities registration, forms and content of issue prospectus, approval of public offerings etc., licensing and disclosure requirements, monitoring and control procedures,

2. Insurance

Licensing and on-going supervision, reinsurance and its supervision, third party liability insurance and its supervision, intermediaries and their licensing and supervision.

3. Banking

The main focus shall be placed on the supervision of complex financial groups on consolidated bases. Joint approach should be applied in issuing regulations and drafting new licensing requirements for banks, insurance companies and securities businesses. Risk management methodology shall be developed and implemented for monitoring of risks incurred in the financial conglomerates. Techniques for prompt corrective actions and imposing sanctions shall be developed. Principles of on-site and off-site supervision shall be upgraded to match the latest trends in global financial consolidation.

4. Legal advice

This component includes assistance in drafting specific rules and regulation in context of adoption of Acquis in Financial Services. The legal advisor shall assist the regulatory authority in transposition of the EU Directives, in development of legal instruments enforcing
effective control over on the market participants and impose penalties for insider trading, manipulation of market etc.

5. **Training and Coaching the Staff**

This objective of this component is to enhance proficiency of supervisory staff and to transfer know-how. The training and coaching component of the project shall cover e.g. following subjects:

- Analysing balance sheets and accounting data of Financial Market Companies; Insurance mathematics; Financial management/business decisions and the risks implied by these; Legal instruments of the supervisory authorities for effective control and imposing penalties on the market participants; Actuaries training and solvency test, analysis of accounting and financial data; Insider trading, manipulation of market, trading on stock exchange; Impact of the globalisation on financial markets in the emerging market countries; Banking supervision on the consolidated basis.

Training and coaching component includes 2 types of activities:

**Selective Training**

in subjects such as balance sheets analysis, accounting of financial market companies, insurance mathematics, financial decision making and the risks implied in this, solvency tests, analysis of accounting and financial data, trading on stock exchange, IT training etc. Training component will cover the costs of training specialist that shall design of a training plan and organise training seminars.

**On-the job training (internships)**

allowing key staff members of Slovak supervisory authorities to spend sufficient time (1-2 month) in the EU partner institution and to second to their twinning partners. This type of training shall enhance their skills in different crucial fields as on-site supervision, IT department, database management, etc..

3.4.2. **Software Development and Expert Advice on Early Warning System (0.6 MEUR)**

Activities related to result III. shall be provided under Technical Assistance service contract. The services shall include:

1. **Assessment of current Information System**

IS analysis and reviewing, development of concept of centralised IS comprising an early warning system, database construction, information proceeding services, projection of the access to other institutions databases. The Information system shall be designed in close cooperation with the FMA IT department.

2. **Information System Design**

technical specification of standard licensed software base, specification of the application environment, development of the designed SW application, synchronisation of the platforms.
3. Development of Software Application

shall provide application of proceeding and analysing of collected data from operators (early
warning system), unified accessibility to the whole financial sector data, data protection,
distribution of relevant information to end-users, connection to other institutions of Slovak
financial sector (e.g. stock exchange) and international financial institutions,

4. Software Installation

implementation of SW, running tests, monitoring of the run, fine-tuning, fixing of eventual
malfuinctioning and introductory training of staff.

Means

Twinning

Activities related to results I. and II shall be provided through twinning arrangement with EU
partner institution supporting the FMA and the Bank Supervision of NBS. This shall include:

1 long term (2 years) Pre-Accession Adviser Assistance (hereafter PAA)

PAA’s role will be to lead and co-ordinate the project. He/she will be responsible for policy
advice, transfer of know-how, and co-ordination of all project activities including expert
assistance.

2 long-term experts ; one specialised on capital market and one on insurance business.

Short-term legal expert
Legal Advice will be provided by ST expert who will be available to Slovak supervisory
authorities on demand throughout the whole duration of the project.

6 short-term experts are envisaged for the twinning assistance concerning strategic issues,
bank supervision and training in supervisory procedures and accounting standards

Technical Assistance

Activities related to result III. shall be provided under TA service contract. The services shall
include:

1 long-term IT expert will be responsible for the FMA information system analysis and SW
design, development and installation. He/she will co-ordinate, supported by a local assistant,
of all ST activities including expert assistance, transfer of know-how.

3 short-term IT experts who shall design IS, develop SW and Install SW
4. Institutional Framework

Ministry of Finance is the main authority responsible for essential legislation drafting and overall final approval of legislation concerning capital market, banking and insurance industry. The NBS is currently in charge of bank supervision and regulation of banking system. The Financial Market Authority is body supervising capital market and insurance businesses. All the institutions involved will benefit from this project.

Due to the approved Concept of integrated supervision over financial market as specified in the Deliberation of Slovak Government No. 302, as of 27 March 2002, all activities performed under current project shall support the future integration of both supervisory authorities.

A Steering Committee shall be set up in order to manage and monitor the implementation of the project. The members of this Committee will be the representatives from beneficiary institutions (Ministry of Finance, Financial Market Authority, National Bank of Slovakia) as well as representatives from Government Office, CFCU and EC Delegation.

5. Detailed Budget (in MEUR)

<table>
<thead>
<tr>
<th>Phare Support</th>
<th>Investment Support</th>
<th>Institution Building</th>
<th>Total Phare (=I+IB)</th>
<th>National Co-financing*</th>
<th>TOTAL (MEUR)</th>
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<tbody>
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6. Implementation Arrangements

6.1. Implementing Agency
CFCU
PAO: Mr. Milan Michalicka
Mlynské Nivy 61 - Bratislava
Tel. +421 2 5341 8093
Fax. +421 2 5341 8095

Beneficiaries:

Financial Market Authority
Radlinského ul. - Bratislava
Tel: 00421 2 5726 2111
Fax: 00421 2 5726 2700

National Bank of Slovakia - Banking Supervision
Štúrova 2 - Bratislava
Tel: 00421 2 5292 3400
6.3. Non-standard aspects: not envisaged

6.4. Contracts

Twinning covenant: 1.4 MEUR
1 T.A. contract: 0.6 MEUR

7. Implementation Schedule

7.1 Call for proposals: 3rd quarter 2002
7.2 Start of project activity: 2nd quarter 2003
7.3 Project Completion 2nd quarter 2005

8. Equal Opportunity

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

9. Environment: not relevant

10. Rates of return: not relevant

11. Investment criteria: not relevant

12. Conditionally and sequencing

- Sustainability of the reforms
- Secondary legislation adopted
Annexes to Project Fiche

1. Logical framework matrix in standard format
2. Detailed implementation chart
3. Contracting and disbursement schedule
## LOGICAL FRAMEWORK PLANNING MATRIX FOR:

**Programme name and number:** 2002/000.610-04  
**Contracting period expires:** 30.11.2004  
**Disbursement period expires:** 30.11.2005  
**Total budget (MEUR):** 2.0  
**PHARE budget (MEUR):** 2.0

### Strengthening the Financial Sector Supervision

**Sheet no. 1**

<table>
<thead>
<tr>
<th>Overall objective:</th>
<th>Objectively verifiable indicators</th>
<th>Sources of Verification</th>
</tr>
</thead>
</table>
| Achieve an integrated and efficient financial market | • Increased efficiency of the supervision over institutions of capital market, insurance companies and banks  
• Increased soundness and stability of financial services providers in Slovakia | • EU Regular Report  
• NBS reports  
• Ministry of Finance reports |

### Immediate objectives:

<table>
<thead>
<tr>
<th>Objectively verifiable indicators</th>
<th>Sources of Verification</th>
<th>Assumptions</th>
</tr>
</thead>
</table>
| • Adopt relevant acquis on financial services supervision  
• Enhance supervision of financial sector  
• Implement FMA and NBS co-ordination measures | • Acts and decrees in force as required in NPPA  
• Increased ratio of detected irregularities  
• Decreased number of collapsed FM institutions  
• Statutory documents on integrated supervision adopted and operational | • Collection of Law SR  
• Supervisory authority reports  
• Annual Reports of banks, insurance companies and security institutions  
• Audited Accounts FM institutions |
| • Support at general policy level  
• Institutional environment established  
• Sufficient absorption capacity of involved institutions |

### Results:

<table>
<thead>
<tr>
<th>Objectively verifiable indicators</th>
<th>Sources of Verification</th>
<th>Assumptions</th>
</tr>
</thead>
</table>
| I. Supervisory authorities reinforced and co-ordinated  
II. secondary legislation on financial Services adopted and implemented  
III. supervisory information systems integrated and the early warning system operational; | • Pro-active supervision of financial sector exercised  
• Number of FMA and NBS staff trained in supervisory procedures  
• Increased compliance of financial institutions with regulations  
• Adequate software installed and early warning system operational | • Internal regulations manuals  
• Documentation of internal auditors  
• Reports from on-site inspections  
• Report from off-site supervision |
| • Joint effort of relevant bodies achieved  
• Supervisory institution established and staffed  
• Budget available |
<table>
<thead>
<tr>
<th>Activities:</th>
<th>Means</th>
<th>Costs (in EUR)</th>
<th>Assumptions</th>
</tr>
</thead>
</table>
| 1. Twinning - technical and legal assistance | 1 PAA - 24 mm  
1 LT – capital market supervision 12 mm  
1 LT expert 12 mm – insurance supervision  
1 ST expert 6 mm – bank supervision  
1 ST expert 6 mm – legal specialist  
1 ST expert 6 mm – strategic issue  
1 ST EU trainers 6 mm – accounting  
3 ST experts – supervision procedures  
Training Slovak staff | 1.4 MEUR | Willingness of beneficiaries to cooperate  
Availability of suitable experts to assist  
Support of local, foreign, international institutions |
| 2. SW development and installation inclusive Early Warning System | 1 LT IT expert 12 mm  
3 ST experts – software specialists 6 mm  
- supply of licences | 0.6 MEUR |  
| **Preconditions** |  |  |  
- sustainability of reforms  
- legal framework amended accordingly |
## Detailed Implementation Chart

**Project title: Strengthening Financial Sector Supervision**

<table>
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<th>Project Component</th>
<th>2003</th>
<th>2004</th>
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<td>Technical Assistance</td>
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ANNEX 3

Project title: Strengthening Financial Sector Supervision

Cumulative Quarterly Contracting and Disbursement Schedule (€ Million)

<table>
<thead>
<tr>
<th>Project</th>
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